STABILIZING NEIGHBORHOODS:

A Fresh Approach To Housing Dynamics And Perceptions

Public Systems Evaluation Inc./Boston Redevelopment Authority

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by

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The origins of this work trace back to June, 1972 when Rolf Goetze and Kent Colton began examining housing dynamics and census and market trends at the Boston Redevelopment Authority Research Department. A purchase order from the Department of Housing and Urban Development in the summer of 1977 to Public Systems Evaluation enabled the synthesis of this initial research with the subsequent research efforts at the BRA continued under the direction of Rolf Goetze. This paper draws upon a wide variety of research and published documents, as well as insights developed in field trips in the summer of 1077. Contributors to this effort are too numerous to mention here, but we thank them all.

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PREVIEW

There is widespread confusion on the causes of neighborhood decline. Consider the desire to Pin the Tail on the Donkey:

> Who caused this neighborhood to decline? Why are there broken streets, vacant houses, boarded-up stores where there was once a solid, thriving community. A middle-aged woman cannot bear the thought of a second visit to her old neighborhood -- "Not after what they've done to it."
>
> Who are they? Well, it's obvious, isn't it? The streets are full of black faces. Black people just don't care. They've let the neighborhood go to Hell. The blacks did it.
>
> But according to a militant young staffer in a State regulatory agency, the banks did it. They've red-lined the area. By strangling the flow of mortgage money, they've made it impossible for a healthy replacement process to continue. They suck up urban deposits and deposit capital in more profitable, lower risk suburban developments. Quite clearly, the banks did it.
>
> Not according to a choleric bank president. If anyone deserves the blame, it is the City. It is the City, not the banks, who are responsible for dirty streets, inequitable assessments, venal building inspectors, indifferent police.

> The City now suggests the Department of Housing and Urban Development. HUD did it with its ill-conceived, mismanaged FHA low down payment home ownership program - not to mention its financially distressed 221(d) (3) and 236 subsidized developments, or its public housing disasters.*

In this confusion various interests argue from differing premises for conflicting solutions. It's an income problem. No, it's a race problem. If the banks hadn't red-lined.... corruption....

Let us turn from the heated debate to thoughts of what lies ahead and the cold statistics of demography.

The Tidal Wave of Population and Neighborhood Dynamics

Most know of the baby bulge, the large number of children born between 1940 and 1965. While we have heard of overcrowded classrooms (now empty), the crush on colleges (which overbuilt dormitories), and the current intractable unemployment problems, we never connect these events. At each turn, accommodating this bulge has strained the system.

Figure A shows this national bulge turning thirty, the time of settling down. Until 1955 there was a steady progression as the system accommodated a regularly increasing number of people. Then, between 1955 and 1975, there is a shortfall. In this period, the nation was short an average 14 percent of the normal number of people turning thirty. But even more drama is in store for the period from 1975 to the year 2000, because during this period 16 percent more than normal will seek to come to roost. The stresses this will cause are hard to visualize in advance. Those who have spent the last twenty years fighting blight will be unprepared.

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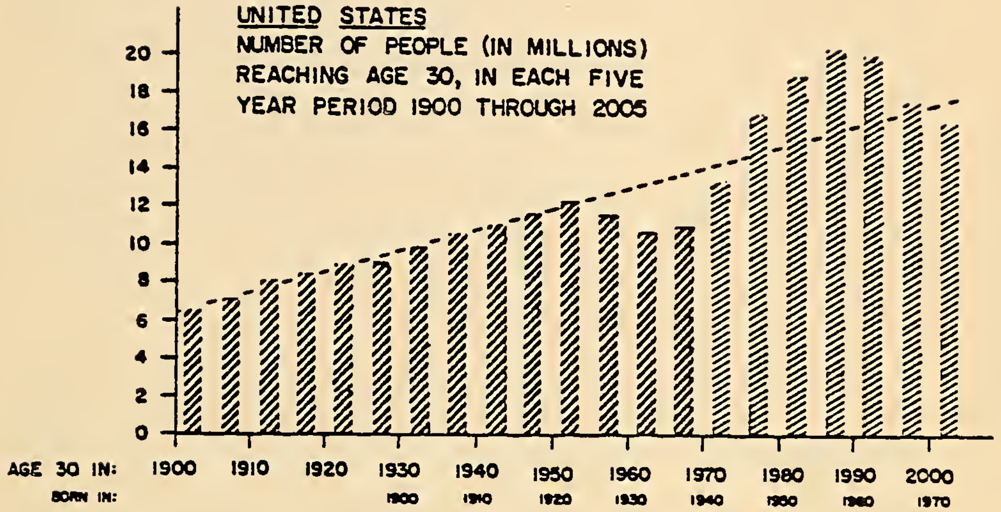
*Excerpted from a forthcoming unpublished report, Boston's Parkman Center for Urban Affairs.

Figure A

FAMILY SETTLEMENT INDICES



Dominant Dynamic: Filtration Blight Declining Tight Rising

Decline is difficult to adjust to in our growth-oriented society, but between 1950 and 1965, the system was forced to adjust to an unusually large number of people dependent in turn on a disproportionately smaller number of employed than expected. Just about the time the system became reconciled with this slack period as a normal state, the baby bulge intruded, with staggering numbers trying to form independent households and become wage earners. From the late 1960s to the mid-1980s, increases are stunning, but a decline back to the historic normal is inevitable.

Tsunami accounts describe how a tidal wave first pulls the waters way back exposing the hidden ocean floor, before rushing in swamping everything in sight. Today, we are puzzled, exploring the mysterious ocean floor and arguing about questions of neighborhood blight, lack of mortgage credit, and dwindling city revenues. When the tidal wave of new households engulfs urban areas, most of the existing housing supply will be brought into play because the nation simply cannot produce enough new housing in the next fifteen or twenty years to meet the new demand.

There is much debate regarding the life-styles of these new household as they become self-reliant and settle down. Traditionally, people married and the male became the breadwinner while the wife raised children. Recently, two-career households have become significantly more widespread. It is too soon to tell what eventual life style patterns will be, but for the time being substantial numbers are not having children, and as a result, have very different priorities. Instead of safe yards, good schools, and fresh air, they seek central location, exciting entertainment, and escape by air to far away places. Since they have tripled the per capita income of traditional families, they can attain now what childrearing families only dream of doing after the kids are grown up. For the next fifteen years many are likely to come to roost in the central cities; the time to prepare for their arrival is now.

For policy makers, the implications should be clear. The last twenty years can be characterized as the period when problems of urban blight caused special stress; and the coming twenty years as the period of rediscovery, speculation, and dislocation. Lest we confuse this with the biblical image of lean years followed by years of plenty, we must realize that coming events can bring with them a full measure of trauma, particularly for existing residents.

Since all neighborhoods in any urban area are not impacted in concert, policy makers will have to learn to separate healthy from pathological neighborhood evolution. Blight and deterioration will continue to be a problem, only less frequently. Speculation or gentrification may come to predominate within a decade - as it already does in some major cities where household growth has outstripped housing construction. The challenge will be to promote neighborhood stability and revitalization without displacement.

Revitalization Without Displacement

Healthy neighborhoods have a confidence in their future which derives from stable demand on the part of new residents to fill normal vacancies at turnover. When disinvestment sets in, demand weakens, neighborhood self-image drops, and more serious deterioration begins. In the past this has often led to housing abandonment. Recently, with the changing demography described above, household

preferences, and energy concerns, some of these urban neighborhoods are being rediscovered, and we begin to see an unexpected middle class presence in the city.

In moderation, this demand renews neighborhood vitality and boosts self-confidence. However, when demand becomes excessively strong or focussed into too small an area, existing residents can not only be harmed by rising prices, but possibly even displaced.

Revitalizing neighborhoods offer an unprecedented opportunity to maintain diversity if appropriate public policies are pursued. However, if market forces are left to themselves, displacement of existing residents is likely.

Neighborhoods are extremely varied and complex -- and policy makers have found it difficult to separate deterioration from the trickle-down theory which accepts deterioration as inevitable. Figure B proposes a new theory of neighborhood stability wherein healthy neighborhoods are continually renewing themselves. Models of such neighborhoods exist at all economic levels, in all urban areas, and still encompass the majority of our existing housing stock.

Figure B - Policy Mean Lies Between Extremes

Neighborhood Market Types	Declining (Disinvesting) --	Stable Or Ideal	Rising (Gentrifying) ++
Symptoms Indicators (or Causes?)	• Excess supply • Uncertainty in property values • "Red-lining" • Negative press image • Departure of the able • Discretionary sales • Increase in low down payment and/or government insured lending • Increase in absentee ownership • Rising tax delinquency • Property abandonment	G O L D E N	• Excess demand • Price inflation (real or anticipated) • Speculation • Strong press image • Inmigration of higher class • Investment purchases • Conversion of marginal space into more dwellings
Corrective Remedies	• Boost neighborhood image • Value insurance for resident owners • Improve jobs and income without stigma • Support NHS if requested • Demolish excess housing (or mothball) • Land bank vacant lots until stable	M E A N	• Dampen outside demand • Assist disadvantaged to remain • Enforce code • Prevent illegal conversions • Reassess only upon sale • Control rents if necessary • Construct additional housing

? In this theory, too little demand (or poor self-image) is only one of two types of deterioration and neighborhood trauma. Excessively strong demand (on the part of the more affluent or students) can also lead to lack of maintenance. Here too, the greatest returns come to those who profit from the strong market while doing little maintenance themselves, reaffirming the Prisoner's Dilemma.

This new theory alters the role of public policy from its traditional simple focus on production and rehabilitation (which may mask or even cause instabilities), to one of actively maintaining neighborhood confidence to achieve the "golden mean" by more sensitively administering traditional housing tools. These must now be employed only in ways that build or reinforce a positive future image of the neighborhood. The key lies in understanding the market and housing forces of neighborhood dynamics and in generating neighborhood awareness that its future is not out of control but belongs to itself. To these ends public policies must foster a better partnership with the residents and the private sector. Neighborhood Housing Services (NHS) although best-known by many, is simply one of a set of such stabilizing partnerships between private, public, and community interests.

The text which follows will detail appropriate strategies for all types of neighborhoods. However, before remedies can be applied a diagnosis is required.

A neighborhood may appear run down or sound and the residents may speak of housing needs, but until those who would help the neighborhood better understand the pathology, they are as likely to harm as to help. A medical analogy furnishes some insights. The human body has a complex system for maintaining health that we only partially understand. When the system experiences infection, combat mechanisms are brought into play. A doctor assists these coping mechanisms in administering treatment, but he looks for counter-indications that signal when the assistance is doing more harm than good. This same system may also allergically react to something in its environment and that is quite different. An allergy is not an infection, but an overresponse of the coping mechanisms to some outside agent like pollen. Here the doctor attempts to suppress the coping mechanisms just enough to restore homeostasis, but not so much as to impair the normal defenses against infection. If we can associate disinvestment with infection, and speculation with allergies, then the public policy course is defined

as aiding the neighborhood forces combat the extremes of disinvestment on one hand, and speculation on the other.

Once we differentiate the pathologies it is really quite simple. Many familiar tools are already available and appropriate when properly applied, but when we confuse disinvestment with speculation, these same interventions prove counterproductive. Just as a patient may develop an allergy to penicillin administered to combat an infection, so a neighborhood can develop a serious reaction in response to well-intended policy interventions. "Iatrogenic" or doctor-induced illness is an important concept in medicine. It seems likely many of our neighborhoods are beginning to suffer similarly from misguided interventions into the neighborhoods' housing dynamics.

Our problem is less in our medicines than in our medical knowledge. Rather than developing new programs we need to improve our understanding of neighborhood dynamics. Reexamining the tsunami wave diagram, we can call the times prior to 1955 the period of filtration. The twenty years from 1955 to 1975 are when blight and abandonment predominated, and 1975 to the year 2000 will be when tight and unaffordable housing shapes trends of thinking. Seen from this perspective, a reviewer of this paper remarked:

> I get it; it's simple. You give section 8 (housing assistance) directly to all the households caught in blight because they've been through the wars, and they move into gentrifying areas to cool down the speculation -- and everything comes out hunky-dory by 1990 because things have balanced out. The efforts of these new households will revive and fix-up our existing neighborhoods and planners just have to see that everybody plays fair. No, maybe the new households will even help in that as well.

Would that it were that simple. Nevertheless this reviewer boldly grasped the revolutionary implications of both the demographic trends and the new theory of neighborhood stability. The text which follows begins to discuss some of the complexities. Let us know what you think after reading the paper.

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LIST OF EXHIBITS

LIST OF EXHIBITS (CON'T)

1 INTRODUCTION

Until quite recently it was fashionable to debate whether cities were worth saving. Housing experts seemed in an endless quest to cure blight, and the focus was on efforts to arrest decline and to restore the tax base for struggling urban areas. Although problems of blight still persist in many neighborhoods, a counter movement is also building. Suddenly urban neighborhoods are being rediscovered, urban chic is becoming "in," and the experts are seeking a cure for "dislocation," a new term to say that existing residents are afraid of being priced out of their own neighborhoods. Magazine articles feature the "Middle Class Poor," and declare "Housing Outasight," while Sunday magazine supplements dwell on "Brownstoning," the restoration of 19th century city residences that fell into neglect.

A growing variety of factors have contributed to this renewed attention to urban neighborhoods. First, the 1973 oil shortages and embargo challenged people's beliefs that energy would always remain cheap and that commuting times would always improve. Suddenly urban density, public transit, and even the availability of taxi-cabs demonstrated their advantages.

Secondly, the bicentennial fostered a reappraisal of our American heritage. Many now place a greater value on older things. And experience has taught us that newness often means shoddiness, advertisers' claims notwithstanding.

Third, and unobserved by many, an unprecedented flood of new households is forming from the babies born after World War II. These individuals crowded the suburban classrooms in the Kennedy years and

then clamored to get into (and change) the colleges in the Johnson years. Their number is still beyond the capacity of the job market to absorb today. Employment has swallowed much of this population bulge, and an unusually large number of these young now seek to own houses of their own. What percent of these households will choose to live in the city or the suburbs is still undecided, but undoubtedly demand for the existing stock will sharply increase.

Finally, emergence of new life styles and women's rights has an important place in the changes that are underway. A career, or at least a job, not only gave women status, but the earnings also enabled two-wage households to beat others to a home by out-bidding them in the face of housing scarcity. As they focus their purchasing power into safe attractive urban neighborhoods, unbelievable inflation in property values results.

We will not know for a number of years whether these forces actually portend a permanent and significant "return to city living" or whether it is a transitory phenomenon hyped by the media. However, some type of change is occurring, and we can no longer look back. We must focus at least part of our attention on housing and urban neighborhoods and the interaction which is underway. In addressing this interaction, though, the traditional view of a housing market which only filters *down* is obsolete. Housing stock and neighborhoods experience *both* growth and decline, and the dynamics of these changes must be understood. A fresh approach is required for urban and neighborhood housing policy.

This paper is intended to outline this fresh approach. It is divided into four parts, beginning in Section 2 with a new conceptual framework developed in Boston which attempts to provide a richer understanding of neighborhood dynamics and change. Since nationwide comparative data describing trends in recent years is generally unavailable or out of date, the primary methodology of the report is the case study approach. However, Section 3 applies the framework developed in Boston to other cities on an exploratory basis. In Section 4, the policy implications and strategies of this approach are outlined. The final section outlines conclusions and recommendations.

A host of new challenges lies ahead, for which we need to develop a new science; understanding neighborhood dynamics requires a new theory of neighborhood change and stability. At the same time, the recent attention to urban neighborhoods presents a rare opportunity. Housing strategies must be tailored to neighborhood dynamics to be effective. If we can master this challenge, and learn to channel the current forces of urban growth properly, then the opportunity exists to forge a new partnership of private initiative and public assistance and bring about new forms of vital, diverse urban neighborhoods.

2 THE CONCEPTUAL FRAMEWORK: THE BOSTON CASE

2.1 BOSTON IN THE CONTEXT OF OTHER CITIES

Neighborhood dynamics must be viewed in a broader context, one not usually visible to those most directly concerned with neighborhoods. Both changes in housing supply and demand, as well as deeper demographic trends and shifts, are part of this context. Before we proceed to examine the Boston case, a few words on these contextual factors are in order.

The Urban Institute recently classified fifteen cities by household growth and replacement housing construction rates from 1960 to 1970 demonstrating a plausible correlation with changes in value and condition of the existing stock.* (See Exhibit 1 developed from this report.) High growth and low construction, as exemplified by Washington, D. C., were associated with sharply raised existing housing values and rents; low growth and high replacement construction, as revealed by Chicago, Cleveland, and St. Louis, were correlated with a much lower rise in home values. While it is generally known that these cities all have weak inner city housing markets, rate of abandonment does not appear a very satisfactory indicator of this overall weakness. Exhibit 1 arrays these cities graphically. Boston falls on line between extremes, with low household growth roughly balancing low rates of replacement housing construction in the period 1960 to 1970.

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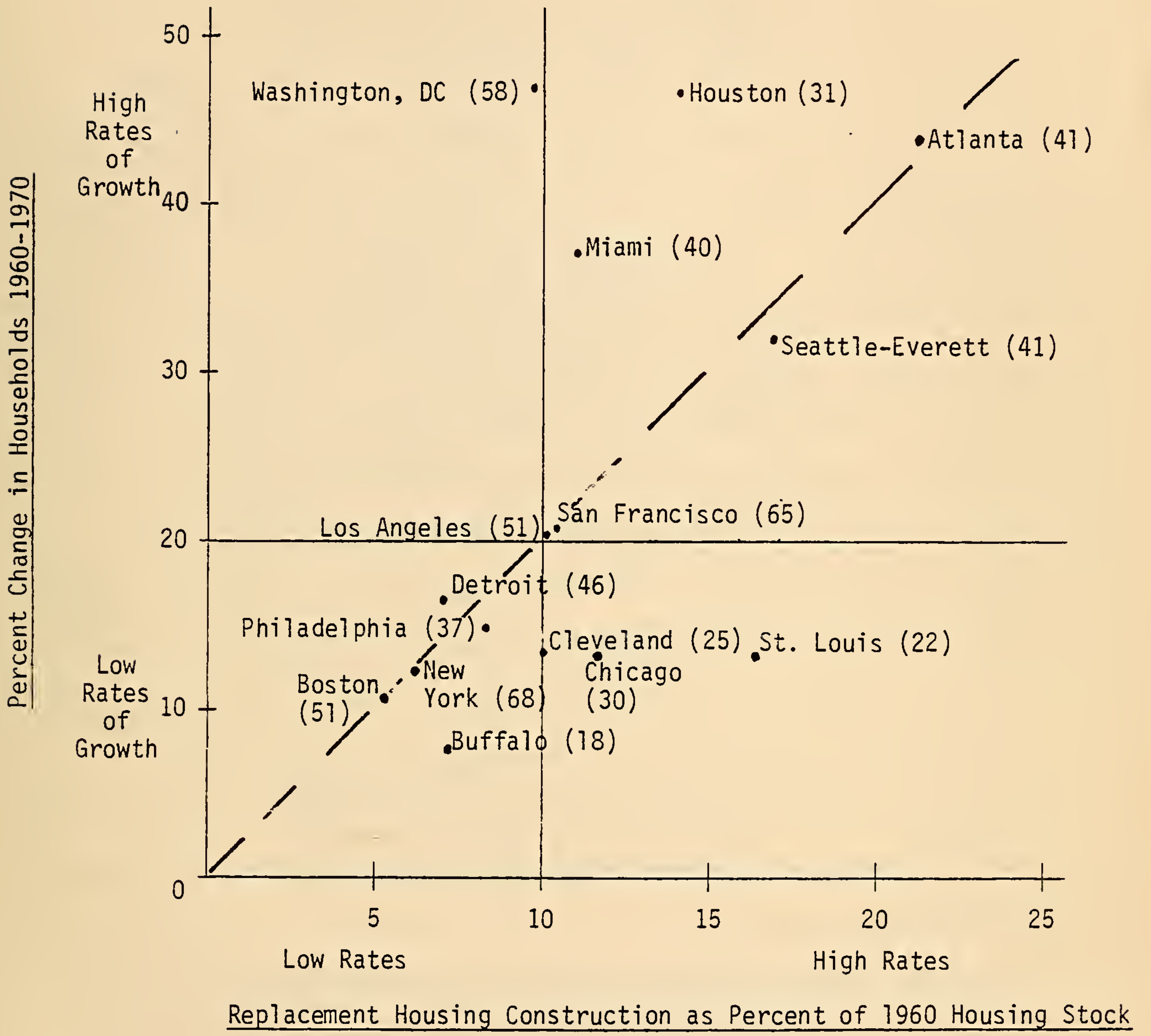
*Franklin J. James, "Back to the City: An Appraisal of Housing Reinvestment and Population Change in Urban America," The Urban Institute Working Paper 0241-01, June 1977.

Exhibit 1

Household Growth and Replacement Housing Construction in Fifteen Standard Metropolitan Statistical Areas: 1960-1970[1]



[1] The number in parenthesis is the percent change in value of owner-occupied units.

SOURCE: Developed from data found in Franklin J. James, "Back to the City: An Appraisal of Housing Investment and Population Change in Urban American," The Urban Institute Working Paper 0241-01, June 1977, p. 83.

In addition to these city data, broader demographic trends contain more clues than is commonly recognized. The number of people reaching thirty, an approximate threshhold for household settlement, has varied widely and abnormally since 1955, leaving a sharp imprint on our urban problems and indicating revolutionary changes continuing to the year 2000. Exhibit 2, developed from analysis by Al Sanders of the Massachusetts Office of State Planning, reveals that the "baby bulge" of the 1950's is about to cross the threshhold to household settlement.* Just as a tidal wave draws back, exposing hidden reefs before swamping the shore, normal population growth drew back during the period 1955-1970 and now promises to swamp our housing stock between 1975 and 1990. Past blight and abandonment may just be the normally hidden reefs as general housing demand trends slackened to abnormally low levels. The wave of home seekers about to settle down in the next twenty years is unbelievably greater than in the last twenty--and virtually all policy makers are accustomed to thinking of the past twenty years as normal. Massachusetts merely accentuates a national trend in this analysis. The baby bulge was a national phenomenon, as Exhibit 3 illustrates.

Major debate surrounds new settlement patterns today. Will there be an echo to the baby boom as these currently forming households have

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* The Massachusetts Growth Policy Report, "City and Town Centers: A Program for Growth," prepared by the Massachusetts Office of State Planning, September 1977.

Exhibit 2

FAMILY SETTLEMENT INDICES

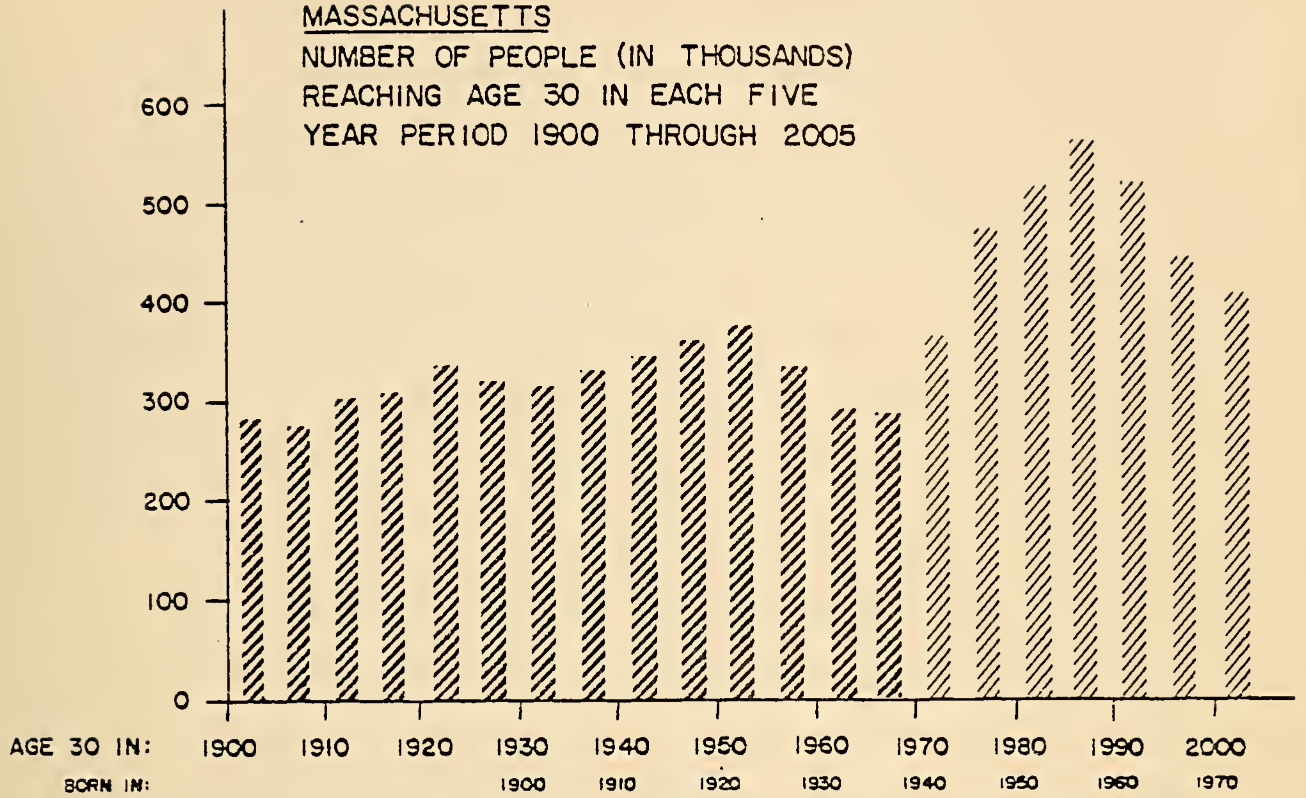
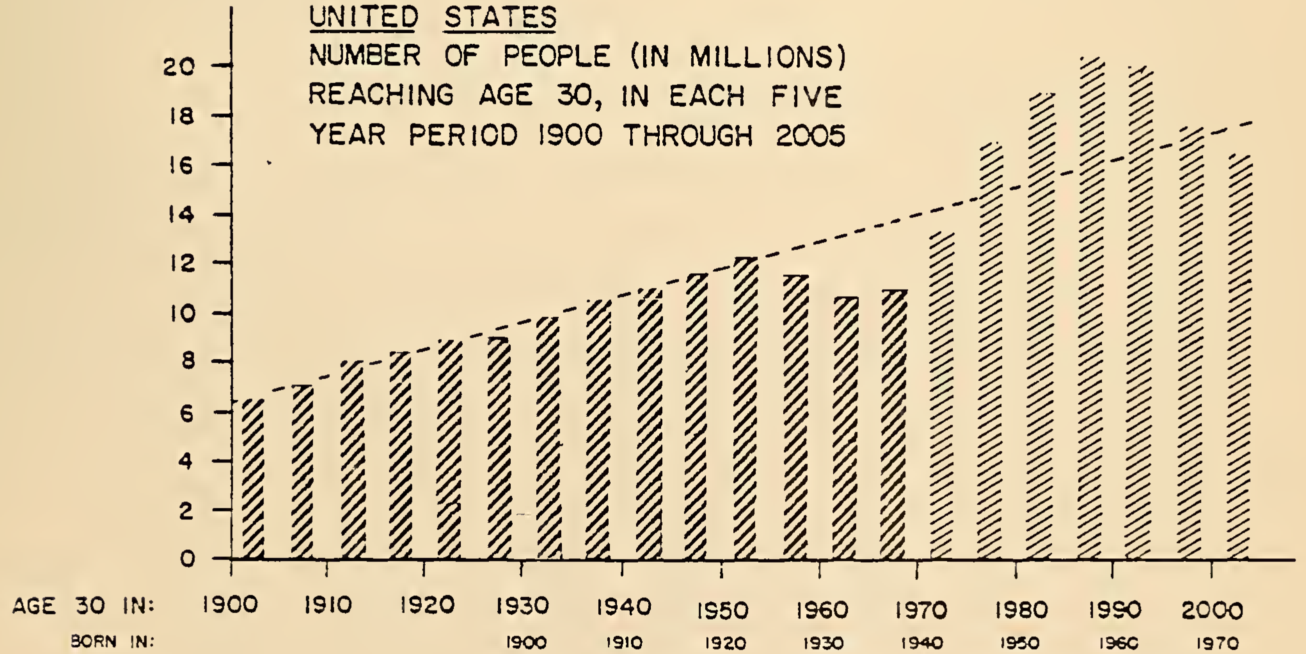


Exhibit 3



SOURCE: MASS. OFFICE OF STATE PLANNING CALCULATIONS FROM U.S. CENSUS

children of their own, or will this generation, which suffered from overcrowding from elementary schools to the job market, hold back reproduction and live for itself? William Alonso has recently explored this new terrain, pointing out that many new households with two breadwinners have <u>much</u> higher per-capita incomes.* Instead of a sole earner heading a family of four, the new household often has two incomes and no dependents, often tripling per-capita income. This household places a much lower priority on safe yards, good schools, or better air. Journey to work is a chore, and one can more easily fly away from it all if one lives near the center. But how many will ultimately choose the traditional path, and how many will become so hooked on these new life styles that they will upset past patterns? No one can say until these households complete their reproductive years and begin their forties. Much of this huge fraction of our national population has not yet come to roost.

2.2 NEIGHBORHOOD MARKET DYNAMICS

The conceptual framework presented in this section was developed initially by the Research Department of the Boston Redevelopment Authority (BRA) for use in analyzing which housing preservation, rehabilitation and new construction programs should be applied in different neighborhoods of the City of Boston.** It is based on a recognition that housing

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* William Alonso, "The Population Factor and Urban Structure," Center for Population Studies, Harvard University, Working Paper #102, August 1977.

** The principal actors in the development of the framework at the BRA were Rolf Goetze, Director of Housing Revitalization Programs, and Kent Colton, formerly Director of Housing Program Development. A number of the ideas presented in the paper are also found in <u>Building Neighborhood Confidence</u>, Rolf Goetze, Ballinger, Cambridge, Massachusetts, 1976.

condition alone is not a sufficient criterion for allocation of housing and community development resources. In the analysis described here, it is assumed that, left to themselves, different neighborhoods naturally evolve in different ways. A neighborhood classification scheme is introduced which corresponds to these different patterns of change. Only when the natural evolution of neighborhood housing markets is understood can the impact of various public sector housing program interventions be reliably projected.

In this section the classification scheme itself is developed, using the Boston data for illustrative purposes. First, the key dimensions of *housing condition* and *market perception* are described, after which the classification scheme is presented. The *measurement* of the housing condition and market perception variables is discussed in Appendix A.

KEY DIMENSIONS

Housing condition data are essential for the analysis of various public interventions in different neighborhoods, serving both to indicate the *need* for such programs, and to set limits on the potential *cost* of a given program.

Although necessary, housing condition data are not sufficient for the purpose of determining housing policies appropriate to different neighborhoods. A host of other factors come into play in determining the future of a neighborhood, and in this paper we have characterized this interaction of factors as *market perception*.

These two dimensions--*housing condition* and *market perception*--provide the basis for the neighborhood classification framework described below.

Housing Condition

In 1973, the research staff of the BRA joined rehabilitation specialists of the city's Housing Inspection Department to develop an index of housing quality as measured by the varying amounts of resources required to bring units up to the city minimum code standards.* The continuum of required resource levels has been partitioned somewhat arbitrarily into five descriptions of upgrading levels: good condition, modest repairs required, qualified for code enforcement, gut rehabilitation necessary, and demolition required.**

The entire housing stock of the city has been evaluated in light of this descriptive scheme. Exhibit 4 provides a breakdown of this survey for the city.† In general terms thirty-one percent of the city's

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* There are no universally accepted definitions of housing quality. U.S. Bureau of the Census indicators of housing quality in 1970 are inadequate. For example, the commonly accepted proxy for quality, units lacking one or more plumbing facilities, shows that these units are concentrated in the Central, Beacon Hill, North End, South End and East Boston stock; i.e., the oldest stock. These are *not* the areas with the most seriously deteriorated housing.

** The first category, "A," includes dwellings which are presently in good condition or for which a minimal amount of repair, not exceeding $500, is necessary to bring the property up to code. The second category, "B," includes housing for which a modest amount of work, not exceeding $1,000, would be sufficient. Category "C" includes units which have code violations serious enough to qualify them for federally-assisted code enforcement (FACE) programs. Units within this group generally require the replacement of a major system--electrical, plumbing, or heating costing $1,000 to $3,000. Category "D" refers to housing for which gut rehabilitation, with a cost ranging from $3,000 to $10,000 per dwelling is the only solution. Finally, category "E" includes those units for which fix-up would not be feasible at all, and which should be demolished.

† Estimates of fix-up costs are in 1973 dollars and have been costed out on a *per unit* basis, even though conditions generally affect the stock structure by structure. These fix-up costs are based on prices in a private market situation where subcontractors are dealt with directly, by owners acting in self interest and do not include allowances for recurring maintenance

(continued)

Exhibit 4

Estimated Total Fix-Up Costs *by Private Means*, Boston, Massachusetts

Condition	Number of Units	Percentage of Stock	Per Unit Cost of Fix-Up by Private Means	Total Cost of Fix-Up by Private Means
A. Good	72,152	31 %	$ 250	$ 18,038,000
B. Modest Repairs	91,375	39	$ 750	$ 68,532,000
C. FACE*-qualified	55,276	24	$2,000	$110,556,000
D. Gut Rehab	11,826	5	$8,000	$ 94,592,000
Sub-Total	230,629	99 %		$291,718,000
E. Demolish	2,227	1 %	demolish	
Total	232,856	100 %		

* FACE stands for Federally-Assisted Code Enforcement.

Source: Goetze, Rolf, Building Neighborhood Confidence, Ballinger, Cambridge, MA, 1976, p. 28

units may be considered "good as is" (category A), and when added to those in category "B," the proportion of what are basically satisfactory dwellings reaches seventy percent. In other words, over two out of three dwellings require only limited assistance to meet basis code standards. Units in category "C" comprise twenty-four percent of the housing stock. Approximately five percent of the stock is in bad enough condition to require gut rehabilitation; and one percent of the city's housing, essentially made up of units that have already been abandoned, requires demolition.

The entire fix-up task, requiring close to $300 million, clearly necessitates setting priorities and establishing incentives to the private sector. Both of these tasks require the consideration of the dimension of market perception, which is discussed in the following section.

Market Perception

The strength of the housing market in a neighborhood can be defined in terms of the relative number of households desiring to move into, stay in or leave that neighborhood. In a strong market area, there are more applicants than vacancies, or more households who wish to live in the neighborhood than there are available dwelling units. In a stable

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such as painting. In 1973 an owner could "gut rehabilitate" units for less than $10,000, provided he owned the building, it was in fair structural shape, and he was not required to hire and train unskilled persons, obtain the consent of community groups and the like. In other words, these costs are *not* comparable to the much higher rehabilitation costs under federal housing programs such as Section 236.

neighborhood, supply and demand balance out, whereas in a weak market area there are fewer households seeking to remain than available dwellings.*

Note that the variations in housing market strength do not necessarily parallel housing condition. To illustrate this point, neighborhoods throughout the city were tentatively located on this market strength spectrum. Comparison of maps showing housing condition and market strength revealed that areas in similar condition were subject to different market influences. Further, there were neighborhoods (e.g., the South End), with poor condition but a strong market, and some neighborhoods with fair to good condition had weak markets where owners of sound houses are dis-investing because of fear that a lack of qualified buyers may result from possible neighborhood change.

Despite its importance, market strength as defined above is difficult to measure in practice. Further, the actual balance between households wishing to enter, remain in or leave a neighborhood may not be as important as the balance *perceived* by the key actors in the housing process. It was, in fact, this *market perception* that was determined for different Boston neighborhoods.

The decision to rank a neighborhood's market perception as rising, stable or declining was an informed and structured subjective judgment, based on a collaborative effort by staff of the Research and Planning Departments of the BRA. The final judgments drew on both hard data sources

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* This report maintains that market perception is an important factor in neighborhood dynamics, although it is sometimes difficult to measure. This seems more intuitive when one remembers that perceptions are also important in a number of other areas of human behavior, e.g., stock market interactions, decisions to buy or sell a liquid investment, and overall consumer purchasing.

(mortgage sales, vacancy rates, etc.) and experience with many of the actors in the real estate industry (including owners, tenants, brokers, lenders, other public officials, etc.). The actual procedure is discussed more fully in Appendix A, entitled Preliminary Indicators. The purpose of the present discussion is to point out that neighborhoods can, in fact, be ranked according to a simple three-valued scheme of market perception. The next section addresses the utility of such a ranking, in connection with the classification of neighborhoods.

NEIGHBORHOOD CLASSIFICATION

A matrix results from combining the housing condition dimension with the market perception dimension, as shown in Exhibit 5. Neighborhoods can then be located within the resulting conceptual framework, as shown in Exhibit 6, which identifies some of the symptoms associated with different types of neighborhoods.* The *cost* of maintaining and upgrading is a function of condition; but the *incentive* to do so depends in many cases on the strength of housing demand and the change in market value resulting from upgrading. Markets perceived by key actors as rising or declining differ sharply in their behavior, and the futures, even of superficially similar neighborhoods with essentially the same housing condition, will differ widely.

Exhibit 7 shows the estimated percentage of Boston units which fall into each of the various neighborhood types, and Exhibit 8 gives a rough approximation as to location.

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* For the sake of simplicity, the former categories of condition have been condensed, and *areas* of the city have been classified according to three levels of condition--good (housing needs at most minor repairs, such as exterior painting), moderate (housing needs moderate repairs, to deal with deferred maintenance), and serious (housing needs major repairs such as new mechanical systems, plumbing, and/or heating).

Exhibit 5

Conceptual Framework for Neighborhood Classification

Market Perception

Housing Condition	Rising	Stable	Declining	Rapidly Declining
Good Minor Repairs Required	G/R	G/S		
Fair Moderate Repairs Required	F/R	F/S	F/D	
Poor Major Repairs Required	P/R ?!	P/S	P/D	P/RD

Source: Goetze, Rolf, Building Neighborhood Confidence, Ballinger, Cambridge, Massachusetts, 1976, p. 34.

Exhibit 6

Neighborhood Characteristics Associated With

Housing Market/Condition Classifications

Housing Condition	Market Perception: Rising	Stable	Declining	Rapidly Declining
Good Minor Repairs Required	G/R - rising values - rising rents	G/S - ideal neighborhood		
Fair Moderate Repairs Required	F/R - reverse filtration - absentees taking over - existing tenants being displaced - speculation	F/S - greying - low turnover	F/D - blockbusting - unrealistic expectations - arterial or industrial blight - racial fears	
Poor Major Repairs Required		P/S - market "bottomed out" - some abandonment - realistic expectations	P/D - abandonment - foreclosures - multi-problems	P/RD - firebombing - disaster wholesale

Source: Goetze, Rolf, Building Neighborhood Confidence, Ballinger, Cambridge, Massachusetts, 1976, p. 35.

Only about half of Boston's stock is located in neighborhoods where housing supply and demand are in a state of balance, whereas one-third of the stock is affected by strong demand, that is, by forces where the number of prospective buyers and tenants exceed the opportunities coming on the market. On the other hand, one-sixth of the housing stock may be found in areas experiencing disinvestment, reflecting a weak and ineffective housing demand.*

The significance of the classification scheme outlined above lies primarily in the fact that neighborhoods belonging to different cells of the matrix framework tend to evolve differently, and will accordingly respond differently to the same housing policy intervention. With this in mind, the concept of neighborhodd change will now be developed.

2.3 NEIGHBORHOOD CHANGE

Within the conceptual framework outlined above in Section 2.2, neighborhood change may be seen as a movement from one part of the housing condition/market perception matrix to another. Two questions of paramount interest are, "What causes neighborhood change?" and "What types of change are likely, given that a neighborhood starts out in one particular cell of the matrix?"

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* As housing and especially heating and labor costs have escalated, many of Boston's less affluent households have been forced to spend increasing proportions of their income on housing. The majority of Boston residents are spending more than one-fourth of their income on housing and it is increasingly true that decent housing costs more than many households can afford to pay. Neighborhood blight tends to set in where too many such households with inadequate income become clustered and the area develops a stigma which adversely affects demand. This has occurred in some predominantly white low-income areas, but is more prevalent in neighborhoods where minorities are concentrated, or expected to reside.

Of course, the answers depend upon a complex set of interacting factors, but as the specific examples below illustrate, one of the primary driving forces underlying neighborhood change depends on people, and in particular, the *perceptions of the status of existing and incoming residents*. Following a discussion of the importance of perceptions of status for neighborhood change, this section outlines in a general way why *neighborhood equilibrium tends to be unstable*. Descriptions of the typical processes of change in rising, stable and declining markets conclude this section.

PERCEPTIONS OF STATUS

Very often, analyses of neighborhood change fail to focus on the *residents* of these neighborhoods. Thus, Anthony Downs' concept of "triage" raises the question of whether the housing stock or the people living there are considered to be beyond help. Jay Forrester's computer modelling of the urban system in Urban Dynamics does not differentiate between housing stock and the people living within. Yet, the key questions governing the future of any resident-owned neighborhood are "Who are the newcomers?" (i.e., the replacement buyers and tenants), and, "How are they perceived by the existing residents?"

An exploration in Boston of the questions of why people move rather than stay and improve their homes, where they move when they do, what shapes their choices, and what motivates fix-up efforts, has led to the conclusion that income variations alone do not fully explain these motivations. Status, and the expression of one's position in the social order play a powerful role.

Within a neighborhood, a turnover process is observed as new households replace departing ones. The tenor of the neighborhood--what people mean by declining, revitalizing, gentrifying, or stable--is set by the interplay between indigenous residents and newcomers, in particular, by the way they perceive each other's status. When vacancies are replenished by "more of the same households," likely younger but from the same roots, residents generally regard this as "normal" or "stable." However, as different lifestyles enter, even in very small numbers, reactions occur--and *the more threatening this difference is perceived by the residents, the more extreme their reaction.* Communes, welfare dependent households, working class miniorities, professional households or miniority professionals--each makes its own waves among the resident population.

If neighborhood residents see a significant difference between newcomers and themselves, this can have serious future ramifications. Some will alter their investment decisions regarding maintenance and upgrading, while others will even reexamine whether to move or stay. *Research in Boston reveals that a remarkably small number of newcomers, too small to be statistically detectable even if censuses were conducted annually, can set off such neighborhood vibrations.* When the media detect and broadcast this phobia about newcomers, the message becomes more real than reality, and a *self-fulfilling trend* may be initiated. It then becomes crucially important whether there are enough buyers to match sellers or an excess of one over the other. Too many sellers indexes declining neighborhood confidence; too many buyers can lead to speculation or "flipping," buying for resale at profit. When a neighborhood runs short of *normal* replacement buyers, that is, when the stream of households that have been coming in the past dwindles, the stage is set for potential change.

The question of how to measure or monitor perceptions of status and change ramains an issue of important dimensions. Some tentative thoughts on this topic will be presented in Section 2.4.

UNSTABLE EQUILIBRIUM

As the following scenario illustrates, when a neighborhood begins to change in an unhealthy way, either in terms of declining market perception or deteriorating housing conditions, there may not be any natural forces which arise to counteract that change. For a stable equilibrium, it is necessary for every change away from that equilibrium to give rise to a counteracting tendency in the opposite direction, whose magnitude grows in proportion to the degree of change.

Conversely, in the unstable equilibrium characterizing many contemporary urban neighborhoods, the reactions which follow change serve only to increase the effect, resulting in rapid and dramatic fluctuations. In such a chaotic situation, it is little wonder that the impacts of housing policy interventions have been totally unpredictable.

For illustrative purposes, consider a hypothetical neighborhood of resident-owned homes. Assume that annually fifty structures come up for sale because of deaths, job transfers, changes in household size, etc. To maintain balance, fifty new homeowners must take their place. The key to understanding neighborhood dynamics lies in this replacement process. A balance between the number of buyers and sellers is not automatic but is instead a complex process involving many actors--and it appears that each communicates to others in subtle and often in counter-intuitive ways.

Isolated incidents, such as difficulties in obtaining conventional financing, or homeowners' insurance cancellations, may be interpreted by brokers, residents, and potential buyers in ways that negatively affect replacement housing demand.

If only forty-five qualified buyers appear interested in the neighborhood, the other five structures still go "somewhere." They may be sold to absentee owners or to buyers who are otherwise seen as incompatible with neighborhood norms.

There may be instances in which the seller takes back a mortgage (if credit difficulties appear to be a barrier to obtaining enough qualified buyers), or an unsold structure may be rented to "just anyone," while the owner or his executors wait. These events may trigger complex chain reactions among many of the other resident households, as well as those with roles in the neighborhood housing market, such as brokers, appraisers and lenders.

While all the repercussions cannot be examined here, a number are obvious. Some *discretionary sales* will result from abutting residents who fear that factors beyond their control will downgrade the neighborhood. Rather than fifty houses seeking replacement buyers in the next year, more than seventy may be on the market, and simultaneously the former reservoir of compatible replacement buyers is likely to diminish. Countless other residents, who themselves do not actually decide to sell, nevertheless adopt more of the wait-and-see attitude regarding home improvements. They begin to wonder whether it makes sense to continue investing in their homes.

"Objective reality" becomes more problematic than usual. Brokers, appraisers, loan officers, residents, potential homebuyers, individually and

subjectively, draw their own conclusions about the future of the neighborhood. Stereotyping and prejudice significantly shape these many individual assumptions which harden into self-fulfilling convictions. Negative media coverage of neighborhood events, regardless of the relative actual importance of such events, is often misinterpreted in wide ranging ways, reinforcing unspoken expectations on the part of a host of differing interests.

The additional housing listings bring new market forces into play. Whereas word-of-mouth may formerly have attracted ample replacement buyers, now brokers advertising and "for sale" signs come onto the scene, raising a new awareness or altering the previous self-perceptions of the community. Remarks of a few disgruntled residents, bad-mouthing the area because of the way they feel, become "news" which then further exacerbates the supply and demand imbalance and inclines insurers and appraisers to be especially conservative in judging future risks.

The availability of FHA mortgage insurance which enables families with minimal downpayments to buy at no risk to the lender (and with no real financial stake themselves), coupled with FAIR plan home fire insurance (which may even encourage arson), completes the breakdown of the healthy system. As one resident phrased it, "Better no sales than too many of those sales." When long-term residents experience cancellations of regular home insurance and assignment to the FAIR plan they become aware of change. The headaches of those who sell under FHA, having to pay points on buyers' mortgages, to fix-up even when the buyer wishes to improve the housing his own way, and to face new red tape and delays, points up to the residents that things have changed. Like Gresham's Law, the government-supported programs can drive out conventional buyers, brokers,

lenders, and finally, many of the existing resident owners. As the conventional actors with a direct stake in the neighborhood leave, the area is left to those who feel little accountability.

At this point, change becomes traumatic. Some households are now overwhelmed by a fear that in the future the neighborhood as they knew it will decline into chaos, or no longer be controlled by its residents.

The above hypothetical example illustrates in a dramatic way the potential instability of urban neighborhoods. The following three sub-sections describe specific case histories associated with rising, stable and declining markets, in order to illustrate the processes of neighborhood change more concretely.

RISING MARKET

Revitalization is a resurgence of confidence in a neighborhood's future, often a reaction signaling that the neighborhood was over-discounted or too pessimistically viewed by the web of actors affecting it. In the main, market forces make these assessments--and the role of planners and policy makers is to detect and modify these market forces. In some cases, a very visible in-migration of more affluent newcomers signals this change in confidence, a process the British call "gentrification," in which higher class residents "discover" the neighborhood and take it over. One consequence of gentrification may, however, be displacement of existing residents, in the latter stages as a result of speculation.

Gentrification

The Bay Village neighborhood in Boston underwent "gentrification" in four stages.* In 1950 this area, which at that time was not called Bay Village, was very shabby with high transiency, and many lodging houses. Stage One began as members of the gay community renovated and even totally rehabilitated some of the most deteriorated properties for their own use and on behalf of others. There was little displacement and conventional financing was very difficult to obtain. In Stage Two an alert real estate broker, who recently moved in himself, began promoting the neighborhood to young professionals seeking bargains. Bay Village was named and the Bay Village Neighborhood Association was formed by a core of long-term residents to improve its image and obtain some neighborhood improvements. Market demand increased, leading to conversion of more rooming houses and some displacement. Financing was still a problem.

In Stage Three, Urban Renewal came in to upgrade the infrastructure (sidewalks, lights, parks), making financing more widely available. And now, most recently this revitalized area draws in middle and upper income families paying "top dollar." The resident socio-economic class of the 1940's has been replaced fairly gradually by a higher one. This process now happens more radically and suddenly in many cities, most notably in Washington, D.C.

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* This process is detailed in Timothy J. Pattison, "The Process of Neighborhood Upgrading and Gentrification: An Examination of Two Neighborhoods in the Boston Area," unpublished Master's thesis (Massachusetts Institute of Technology), June 1977.

Speculation

Other stresses and strains are revealed by looking at a neighborhood invaded by the affluent through the eyes of its own residents. Some neighborhoods can become too fashionable, experiencing the brownstoning, or Georgetown, effect. Here excessive demand develops for the available housing opportunities as people with higher status are attracted. The market then bids up prices, requiring bigger mortgages and inflating property values and placing new burdens on existing residents. Not only do all properties become liable for reassessment, imposing higher costs on residents who remain, but investment motives begin to rival homeownership as particular owners seek ways to capture the excessive demand. Basements become garden apartments, attics and garages become lofts and carriage house apartments. Again there are many scenarios, but in a perverse way the incentives that in stable markets promote low turnover and good maintenance are pushed aside by the prospects of gains from subdividing, trading and speculating. Costs rise for all residents while financial gain is primarily realized through turnover.

STABLE MARKET

It is in the stable areas, *not* the rising markets, that natural forces appear to "normalize" behavior and check deterioration, *and only here does housing appear to maintain itself*, the good properties doing visibly better than the worse ones. Here we have something like homeostasis. In contrast, in weak markets, investments in improvements often do not repay themselves, while in the high demand area there is a market

for everything, regardless of condition. The process of *incumbent upgrading* illustrates how stability can be maintained through sensitive public planning.

Incumbent Upgrading

"Incumbent upgrading" can be understood by considering Pittsburgh's Neighborhood Housing Services (PNHS), now in the process of being copied in scores of cities under the influence of the federal Urban Reinvestment Task Force (URTF). PNHS began with Ford Foundation-funded grass roots organizing, building neighborhood confidence, fighting encroaching slumlords and challenging the private sector to offer credit. The resulting private non-profit technical assistance corporation has a board with a slight minority of lender and majority of community representation. This allowed public sector code enforcement to become effective. An imaginative special loan fund was created by PNHS to assist those who could not afford conventional loans for fix-up while the code enforcement process was tailored so that fix-up was within the financial grasp of the majority of area residents. As these saw the area improve, they willingly met the $20-40 monthly increased housing costs. Owners, of course, experienced appreciation, and this increase in property values makes recovery of the outlays from the special loan fund possible as the properties of households on restricted incomes are eventually sold. While PNHS has admittedly experienced some displacement in later stages as market forces discovered the potential value of housing in the area, this model makes it possible to bring in subsidies so that those who wish to may remain.

Several elements stand out in this review. The resurgence in confidence is somehow signalled to the network of actors who all have roles in maintaining the neighborhood. Whereas the in-migration of the "gentry" in the Bay Village case was a signal that travelled by itself, PNHS was able to communicate confidence to those in the public and private sectors who were in the process of "writing off" this area. *This modified their behavior*, improving municipal services, restructuring code enforcement, and revising lending underwriting criteria.

DECLINING MARKET

The scenario of decline described above in the discussion of unstable equilibrium is not, in fact, far removed from reality. Further, once the cycle of decline begins, the best intentioned moves can often be counterproductive, as revealed by an analysis of the impact of FHA-insured one-to-four family mortgages in Boston.

Impact of FHA-Insured Lending

Data obtained as a result of the Massachusetts Banking Commission's regulations on home mortgage disclosure show how a neighborhood market can be weakened as a result of self-fulfilling prophecies made by homeowners, potential buyers, brokers and lenders. Exhibit 9 shows changes in the type of mortgages involved in sales in the eastern portion of Boston's census tract 1404. This neighborhood of nearly 1,000 structures, mainly singles, has a normal annual ownership turnover of 5 percent (1973) and 7 percent (1976). However, the number of low down payment mortgages had doubled (from 19 to 39) while the number of conventional down payment

Exhibit 9

Home Mortgages in Census Tract 1404, Boston, Massachusetts

Type of Mortgage	Year 1973	Year 1976
Conventional down payment (at least 20% equity)	26	27
Low down payment (FHA-insured)	19	39
TOTAL	45	66

mortgages has remained virtually the same (26 to 27). The neighborhood had become so aware of the change that 350 residents gathered in a community meeting in August of 1976 to hurl allegations of blockbusting at real estate brokers and redlining at lenders. Yet, to a statistician, or to individual lenders or brokers looking at the pattern of sales on a map, little change is evident. May 1973 and May 1976 show similar scatterations of sales, and only close inspection shows the increase in low down payment sales in 1976. Yet, the tenor of the community has undeniably altered in three years.

Analysis of other Boston neighborhoods suggests that areas where it is *believed* (whether true or not) that only government insured mortgages are available ("FHA only") have by now become stigmatized in many people's minds, suggesting "changing neighborhoods," mortgage foreclosures,

abandoned houses, etc. And admittedly a prudent buyer's suspicions are warranted if banks insist on government insurance and are unwilling to loan conventionally to buyers who have down payments. The stigma discourages some potential buyers with down payments; more are discouraged by the bureaucratic hassles entailed by government insurance.

Not only is the total number of buyers reduced by this process which weakens any market, but the process selectively winnows out the stronger buyers. Brokers apparently reinforce this unfortunate selection process by the way they influence housing demand and stress status and security. Whether they do this deliberately or inadvertently, the result is the same: it sharpens the negative feedback or self-fulfilling process.

2.4 POTENTIAL INDICATORS OF CHANGE

The discussion of Sections 2.2 and 2.3 pointed out that one of the primary problems facing those who are concerned with neighborhood revitalization is the ability to monitor change. This report has outlined a framework for neighborhood dynamics based on the preliminary indicators described in Appendix A. This section highlights some recent refinements of those preliminary indicators, but further research is required. The potential for more rigorous early indicators of change is also discussed in Section 5 and in Appendix D.

MARKET PERCEPTION

Two approaches to the measurement of market perception are described here. First, in multifamily markets the characteristics of

recent investor/owners may serve as an indicator of market perception. Second, a Neighborhood Profile Analysis developed by the Neighborhood Confidence Project of the MIT Department of Urban Studies and Planning, in collaboration with the BRA, is a promising quantitative approach to the notion of neighborhood market perception.

Investor-Owner Characteristics

A BRA study of multifamily investor-owned housing has resulted in the identification of a seven-fold classification of prototypical owners, as shown in Exhibit 10. It has been observed that each investor-owner type tends to operate in a particular housing market environment. Current research is focusing on characterizing multifamily neighborhood market dynamics by the types of investor-owners involved in transactions. This work is summarized in Appendix B.

Neighborhood Profile Analysis

Through a detailed analysis of the characteristics of long-term residents, recent buyers and sellers, sales prices, loan/value ratios and mortgage lending institutions, it is becoming possible to analyze which objective data most closely correlate with market perception. Exhibits 11 and 12 show the data base employed in this analysis for several Boston neighborhoods.

These exhibits include data gathered from two different areas roughly the size of a census tract. Each has similar housing conditions, but significantly different underlying dynamics of change. Exhibit 11 is a neighborhood sliding into decline whereas Exhibit 12 represents a gentrifying area nearby. Note the contrast between recent buyers

Exhibit 10

Multifamily Investor/Owner Types

Type A - Established Owners/Managers (Blue-Bloods)

- Like stable markets
- In business a long time for steady returns
- Integrity, pride in waiting list of tenants
- Objective: steady earnings = f (quality, steady services)
- Careful selection of choice, qualified tenants
- Tend to have relatively low mortages or own outright

Type B - Blue-collar investors

- Promote stable markets
- In business for their own (or survivors') financial security
- Unsophisticated
- Objective: equity to cover old age
- Minimize mortgages, own outright if possible
- Tend to cluster holdings near their own residence
- Always on hand to do repairs on weekends, evenings
- Easily and unwittingly overwhelmed by changes
- Ill-equipped to deal with complexity of rent control, housing court, tax abatements, etc.

Type C - Traders

- Speculate in rising markets
- Seek leverage and rapid appreciation of equity
- Objective: reap gains from appreciation upon resale
- Increase gross rent and capitalize on it by selling at a favorable price
- Tenants incidental; there only to keep building occupied and to demonstrate rent potential to next investor
- Minimize personal exposure (put in little time or money to maintain property)
- Concentrate on cosmetics that would increase resale price
- Polarized tenant-landlord relationships likely

Type D - Operators

- Derive profits from operations in weak market areas where no one else will supply housing - the low-end of the housing spectrum
- Stereotyped as the slumlord, around since at least 1960's
- Can't be dislodged because of problem of relocating his tenants
- Objective: high annual returns (attendant high risks)
- Will pay taxes only as advantageous to him, but is counting on "end game" (4-5 years before City forecloses)
- Accepts and pockets whatever rents he obtains
- Minimizes taxes and maintenance outlays
- Acquires without conventional mortgages, perhaps takes over existing mortgage or obtains mortgage from seller
- Properties may be encumbered with second mortgages, liens, etc.
- Virtually no tenant selection exercised, more likely than most to take welfare referrals to avoid vacancies
- Often owns "worst" housing in neighborhood, causing abutters to despise him, seek his removal
- Tenant-landlord polarization in his structures
- Likely to be in or get into tax delinquency

Type E - Rehabbers and Developers

- Work in recycling neighborhoods and renewal areas
- Often flourished under federal assistance and now have enormous appetite for tax breaks or more subsidies
- Adept at complex problems, handling red tape
- Politically shrewd, often manipulative to the extent of shaping administration of regulatory agencies
- Make their money at front end, ownership incidental
- Shapers of new market trends
- Likely to derive special advantages from tax collection and rent control system
- Increasingly the envy or model of other entrepreneurs

Type F - Shareholders

- Attracted to housing as investment opportunity
- Professionals pool money to invest; limited partnerships
- Buy at "favorable GRM's" and hope to make money through tax advantages - shelters, artificial losses.
- Have limited grasp of housing issues, and responsibilities, (other than economic), but may retain a competent management team which is a critical element in delivery of decent housing services

Type G - Special Forces (Distressed Property Handlers)

- Specializing in newest gimicks; take over where others leave off
- Always one step ahead of any regulatory agency (municipal, government, IRS, etc.)
- Profits are losses and losses are very profitable
- Calibre of management team, if such exists at all, depends on owner's view of what will return greatest profit within his limited time frame

Exhibit 11
Neighborhood Profile Analysis: Decline

(a) PROPERTY OWNERS

NOTE: Recent Buyers vs. Recent Sellers

LONG TERM RESIDENTS (10 years or more as of 1/1/77)

Total (Household Heads and Unrelated Individuals)	61
Stability Index (Long-term residents as % of Total Households)	7.0%

Age:

20-44	6.6%
45-64	45.9%
65+	47.5%
Not Stated	-

Dominant Occupational Categories:

Retired	24.6%
Craftsman	24.6%
Housewife	21.3%
Clerical	8.2

RECENT BUYERS (1975 - 77) / **RECENT SELLERS** (1975 - 77)

	Recent Buyers	Recent Sellers
Total	49	47
Total excluding 1977	40	40
% Owner Occupants	30.0%	32.5%
% Non-owner Occupants	70.0%	67.5%
Owner-Occupant Buyers / Sellers (Household heads excluding 1977)	12	13
Age:		
20-44	60.0% (6)	46.2% (6)
45-64	40.0% (4)	23.1% (3)
65+	-	30.8% (4)
Not Stated	2	-

Dominant Occupational Categories (Recent Buyers):

Transport	27.3% (3)
Clerical	18.2% (2)
Service	18.2% (2)
Laborer	18.2% (2)

Dominant Occupational Categories (Recent Sellers):

Craftsman	38.5% (5)
Laborer	23.1% (3)

(b) PROPERTY

Number of Occupied Units 1970

Total	874
% Units in one-unit structures (Single family homes)	14.4%
% Owner-occupied units	33.6%
Average # rooms	6.3
Average value	$14,400
% Black-owned	18%
% Renter-occupied	59.2%
Average # rooms	4.7
Average value	$87
% Black-rented	9%

Recent Transactions

	1971	1972	1973	1974	1975	1976	1977
Median Sales Price	-	-	-	-	$11,700 n=30	$14,200 n=11	$ 8,000 n=9
Median Loan-to-Value Ratio	-	-	-	-	.925 n=15	.933 n=6	.899 n=7

NOTE: Recent Mortgage Transactions

Lending Institutions Granting Mortgages in Area

Total # Mortgages: 28

Lending Institutions with most loans:

Malmart Mortgage Co. (FHA-only)	25.0% [illegible]
Dorchester Savings Bank	14.3% (4)
South Boston Savings Bank	7.1% (2)
Seller	25.0% (7)

Source: work in progress on The Neighborhood Confidence Building Project [illegible] directed b[illegible]

Exhibit 12
Neighborhood Profile Analysis: Gentrification

(a) PROPERTY OWNERS

LONG TERM RESIDENTS (10 years or more as of 1/1/77)

Total (Household Heads and Unrelated Individuals)	117
Stability Index (Long-term residents as % of Total Households)	20.7%

RECENT BUYERS (1972 - 77)

NOTE: Recent Buyers vs. Recent Sellers

Total	76
Total excluding 1977	96
% Owner Occupants	85.4%
% Non-owner Occupants	14.6%
Owner-Occupant Buyers (Household heads excluding 1977)	82

RECENT SELLERS (1972 - 77)

Total	96
Total excluding 1977	96
% Owner Occupants	69.8
% Non-owner Occupants	30.2%
Owner-Occupant Sellers (Household Heads excluding 1977)	67

Age:

Age	Long Term Residents	Recent Buyers	Recent Sellers
20-44	9.4%	77.6% (59)	26.2% (17)
45-64	48.7%	21.1% (16)	40.0% (26)
65+	41.9%	1.3% (1)	33.8% (22)
Not Stated	-	6	2

Dominant Occupational Categories:

Long Term Residents:

Retired	20.5%
Housewife	17.1%
Clerical	15.4%
Craftsman	10.3%

Recent Buyers:

Professional	30.3% (23)
Clerical	15.8% (12)
Managerial	11.8% (9)
Craftsman	9.2% (7)

Recent Sellers:

Clerical	20.0% (13)
Professional	18.5% (12)
Housewife	15.4% (10)
Service	10.8% (7)

(b) PROPERTY

Number of Occupied Units 1970

Total	565
% Units in one-unit structures (Single family homes)	23.8%
% Owner-occupied units	48.3%
Average # rooms	7.6
Average value	$19,800
% Black-owned	-
% Renter-occupied	48.0%
Average # rooms	5.0
Average value	$94
% Black-rented	2.0%

Recent Transactions

	1971	1972	1973	1974	1975	1976	1977
Median Sales Price	-	$20,500 n=27	$22,500 n=17	$19,000 n=16	$21,500 n=11	$24,700 n=22	-
Median Loan-to-Value Ratio	-	.894 n=27	.898 n=16	.900 n=15	.628 n=2	.899 n=17	-

NOTE: Recent Mortgage Transactions

Lending Institutions Granting Mortgages in Area

Total # Mortgages: 79

Lending Institutions with most loans:

Dorchester Savings Bank (FHA-only)	16.5% (13)
Malmart Mortgage Co.	8.9% (7)
Charlestown Savings Bank	8.9% (7)
Provident Institution for Savings	7.6% (6)
Home Savings Bank	7.6% (6)
Massachusetts Coop Bank	7.6% (6)

Source: Work in progress on The Neighborhood Confidence Building Project, MIT, directed by [illegible]

(1972-1977) and recent sellers. The buyers as shown in Exhibit 11 are largely non-owner occupants and in blue collar occupations. By contrast, recent buyers in Exhibit 12 are largely owner occupants and in white collar professions. Mortgage patterns further emphasize this contrast. The lending profile in Exhibit 11 suggests difficulties in obtaining conventional financing (26% of the mortgages are financed by the seller and another 25% by the Malmart Mortgage Company, the primary processor of FHA-insured mortgages) while conventional credit is clearly available to the buyers in Exhibit 12. Prices are not a good indicator because FHA lending confuses the market.*

Such neighborhood profiles begin to illustrate the dynamics of change that are underway. They are only the beginning, though, and further research and refinement is appropriate with the goal of eventually developing indices or "barometers" of homeowner and neighborhood confidence and change.

STATUS PERCEPTION

The housing system resembles a gigantic version of the childhood game of musical chairs, with chairs receiving different occupants successively over time. The process is less orderly than musical chairs--some households are continuously shifting about while others stay put for years. At the same time, not all chairs are alike; some convey real status to the occupants, while others stigmatize those who sit in them.

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* This is examined in detail in R. Goetze, "The Neighborhood Impact of FHA-Insured Lending and Possible Remedies", Boston Redevelopment Authority, Research Department, 1976.

The status and stigma aspects have become more pronounced with the accelerating mobility since World War II--so much so that there is now often crowding and bidding up of prices to get into certain neighborhoods, while other areas are being deserted. It is as if there were a fear of being seen in certain chairs and counted out of the game once caught in that area. This leads to striving to get to the status yielding and safe sections on the part of many--and to exclusionary practices on the part of those already there, whether these be high-priced downtown residences or suburban enclaves.

The cliche, "keeping up with the Joneses," helps explain market behavior. Any household benefits both economically and in terms of status when surrounded by "Joneses." On the other hand, if the household is living in a neighborhood even just conventionally assumed to house folk that are beneath it, then the household's property value and status are devalued. In a previous era, the home was relatively permanent, but in this more mobile society where many households move anyhow, the selection of the next home is influenced by the location of "the Joneses" for each mover. As a result, many of the households caught up in the musical chairs game are playing it with a keen sense of striving not to be left behind.

James Beshers, a sociologist, has observed that virtually all American households instinctively rank each other's standing on a social ladder--and furthermore that each believes it has earned its position on a particular rung, viewing those below it as less resourceful, energetic, or naturally endowed, while those above are seen as simply more lucky. Regardless of whether high school drop-out or lawyer, any particular

household does not see those who have done better as more capable, but rather as having had special breaks. While this is only Beshers' hypothesis, it further helps explain the striving that governs the shifts in the musical chairs game.

Ecology metaphors of invasion and succession often apply to neighborhood evolution as new types of residents try out and sometimes take hold or make way for still different types to dominate a neighborhood.* A new terminology is required in order to identify the ways in which newcomers contrast with existing residents. This is particularly important in understanding and monitoring the gentrification process, as suggested by the Boston experience.

To indicate the potential usefulness of such a terminology, let newcomers be ranked along a continuum from pioneers, early settlers and the mainstream to the stragglers:

0	10%	30%	75%	100%
Pioneers	Early Settlers	Mainstream	The Stragglers	

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* Individual case studies help in understanding this phenomenon. See Timothy Pattison, op. cit.; as well as Dennis Gale, "The Back to the City Movement Revisited: A Survey of Recent Homebuyers in the Capitol Hill Neighborhood of Washington, D.C.," George Washington University Department of Urban and Regional Planning occasional paper, 1977; and also Jervis Anderson, "Reporter at Large: The Making of Boerum Hill," in The New Yorker, November 14, 1977.

Pioneers, or innovators, are pretty completely inner-directed, often seen by others as eccentrics, trying out what appear to be wild (and possibly exciting) places. Some survive in the unlikeliest environments; others are thrown back; but the early adopters and early settlers are watching them and are interested in how they fare. The pioneer seems impervious to advice or criticism from conventional sources, nor does he seem to evaluate risk ordinarily. He is extraordinary, and we should take his behavior for granted and beyond our influence.

Early Settlers, or Early Adopters, are the leading edge, the trend-setters for the mainstream. These are conscious risk-takers, and, in contrast to the pioneers, watching whether others more in the mainstream are following on their heels. Whereas pioneers may be independent or secretive (depending on your viewpoint), the early settlers are often evangelistic, bargain-oriented, able to check things out on their own, and eager to sell it to others. Early settlers are more concerned than pioneers about their relationship with existing residents, but they really worry whether other settlers are following (to confirm that they have found a bargain). The young professionals "rediscovering" the city are mainly early settlers. Young, two-career, households are likely to follow them, developing a new mainstream that formerly would have flowed to the suburbs.

The *Mainstream* represents the mass market that makes our standard of living possible. Each member wants to be seen to be ahead of the trend and invests dearly, confirming the "bargain" for the early settlers. Representing almost half the entire population, the numbers in the

mainstream are tremendous, but they lack the courage or risk taking ability to lead it. The mainstream is much more subject to trendiness than is generally recognized. Only when the media reflect what early adopters have already done, does the mainstream move forward, whether into new hair lengths, fashions or lifestyles. To be out of step makes its members uncomfortable, rendering them the mass consumers of media fare. Keeping up with the Joneses, to be "hip, not square," and especially not to be confused with the Stragglers keep the mainstream on the move and have honed the status consciousness of many of its members. Signals travel among members of the mainstream in ways that outsiders might think was ESP. For this group, the media sets the pace, and one important fear that keeps all on their toes is to avoid being a Straggler.

Stragglers appear to be left behind by the neighborhood dynamics which increasingly sift and sort household types. Just as most consider it a compliment to be thought a trend setter or early adopter, so they see a stigma in being thought a straggler. There is thus a premium to avoid being caught in a neighborhood labelled by others as housing a residual or apathetic population, below the norm in vitality.

This typology needs to be refined and tested before its usefulness in the analysis of neighborhood change can be confirmed. Yet, it fits the Boston experience intuitively, and also applies to the experience of other cities discussed in Section 3.

3 APPLICATION OF THE FRAMEWORK

3.1 NEIGHBORHOOD TRENDS IN A SELECTION OF MAJOR CITIES

How widespread are the potential applications of the conceptual framework presented in Section 2? A series of field visits to various cities across the United States in the summer of 1977 confirmed that in contemporary policy making in mature urban areas, it is becoming increasingly important to separate neighborhood market perception from hosuing conditions.

Simple filtration, i.e., inevitable decline of the housing stock as it is occupied by successively poorer socio-economic classes, no longer governs housing trends in larger cities. Field visits included Washington, D.C. (several times in April and June 1977), St. Louis (June 27, 1977), Kansas City (June 28, 1977), Denver (June 30, 1977), Oakland (July 25, 1977), San Francisco (July 26, 1977) and Seattle (August 1, 1977). In all of the cities visited, market demand is revitalizing some neighborhoods composed of older stock, sometimes initially in seriously deteriorated conditions, while other physically better sections are experiencing disinvestment. Discussions of local housing trends with officials in these cities underscored the importance to policy makers of understanding current market climate. Increasingly, it is being understood that monitoring this climate allows more effective interventions.

INITIAL OBSERVATIONS

Let us review briefly what the city visits uncovered. (Exhibit 13 outlines the methodology for these visits.) Revitalization and rising markets in fair condition neighborhoods are already accepted in *San Francisco* and much of the *Bay Area*. (Exhibit 14 and Exhibit 15 map out some of the important neighborhood features in the Bay Area and illustrate the benefit of the conceptual framework and terminology outlined in this report.) Attractive posters depict Victorian duplex houses, resembling Boston's working class triple deckers, which have been changed by proud paint and hanging plants. The "rediscovery" of Nob Hill, Russian Hill and Telegraph Hill are well known, but that Haight Ashbury is similarly transforming is a surprise to those who still picture the neighborhood filled with penniless drifters and "hippies". Most of the neighborhoods between downtown and the various hills, the Twin Peaks and the Golden Gate Park panhandle are rapidly revitalizing. Price appreciation has been stunning (e.g., $12,000 appreciation a year on a duplex bought for $60,000 several years ago is common). In Oakland, market strength has entered from Berkeley from the north, displacing declining neighborhoods and their residents out toward San Leandro on East 14th Street. It is noteworthy that decline persists in the face of the region's growth.

Seattle shows similar trends to a lesser degree. The sudden trauma caused by the Boeing layoffs put the whole region into a period of decline--which enabled professional blacks to acquire previously

Exhibit 13

Research Note

While the project budget allowed no travel expenses and little time, each city was visited for at least a day. The approach could be called "scouting on a shoestring," and for initial observations it can be incredibly productive. In most cities I stayed over with friends who knew both their city and my professional interests, giving me a wealth of local color and background.

The typical format consisted of morning discussions at City Hall with officials most sensitive to neighborhood dynamics. In some cities, I already had contacts; in others, I found trial and error quickly brought good sources of information. My credentials were not flaunted, but they allowed visits with busy people during which time we focussed on and marked up AAA base maps. Discussion topics ranged over ethnic shifts, property values, taxes, bank practices, architectural and locational considerations, media neighborhood coverage and tone, house tours, as well as special local idiosyncrasies like characters who got things done, or stopped others. As we traded insights and information about the outside world, these officials willingly offered what I sought and helpfully referred me to other sources. (If we had common base maps or reference points, we could have done much of this by phone but it wouldn't have been as much fun or as productive.)

During the afternoon and evening I went to the neighborhoods that seemed most salient on the basis of previous discussions. Nothing comes close to seeing it yourself, stopping in stores, or getting into chance conversations with residents. This amounts to probing and pulse-taking at points all over the city.

Essentially the morning was thinking, and the afternoon feeling. The concept of being a "fly on the wall" that knows where to go and what to listen for guided my actions. I had my own car and my wife would drop me off or pick me up. We quickly became a team, matching impressions and probing contrasts across a range of cities.

Opportunities came my way. In Denver I was shown "red-lining" research that, like my own, will probably never get around to publication; in Seattle I was added to a panel featuring the Chicago South Shore Bank reinvestment story. As a result lending practices in Chicago, Seattle, and Boston were examined and contrasted by thirty inquisitive minds.

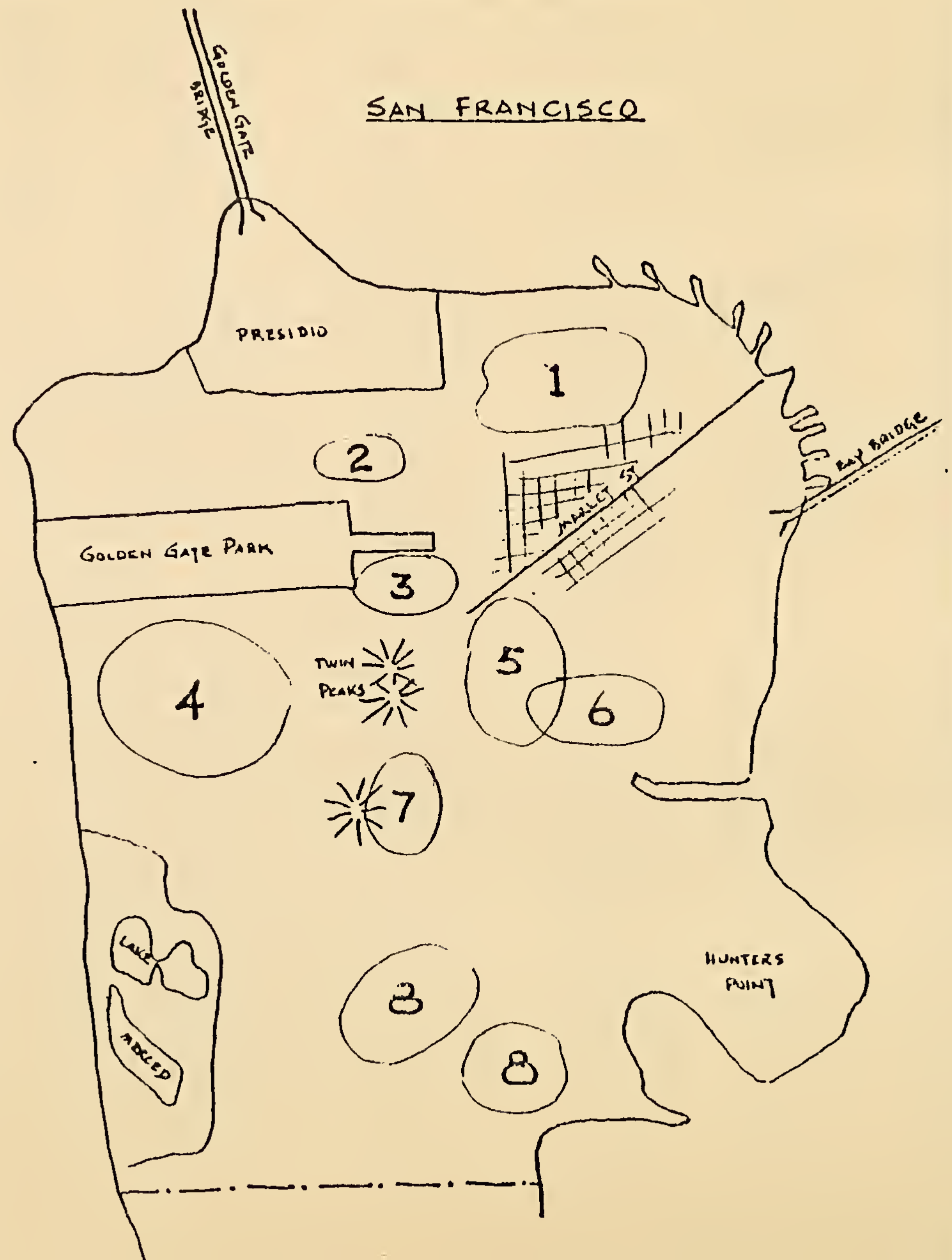
I quickly realized the people I interviewed were more honest with me than they could afford to be within their own power structure, with their citizens, or their federal and congressional officials. They found it liberating to share their professional, but special, hopes and fears regarding program effectiveness, race and income issues, national and local commitment, etc.

In a way this paper should be dedicated to them as they continue to fight the battles against increasing complexity and uncertainty, apathy and mediocrity.

--R. Goetze

Exhibit 14

San Francisco Bay Area: Notes on Market Dynamics

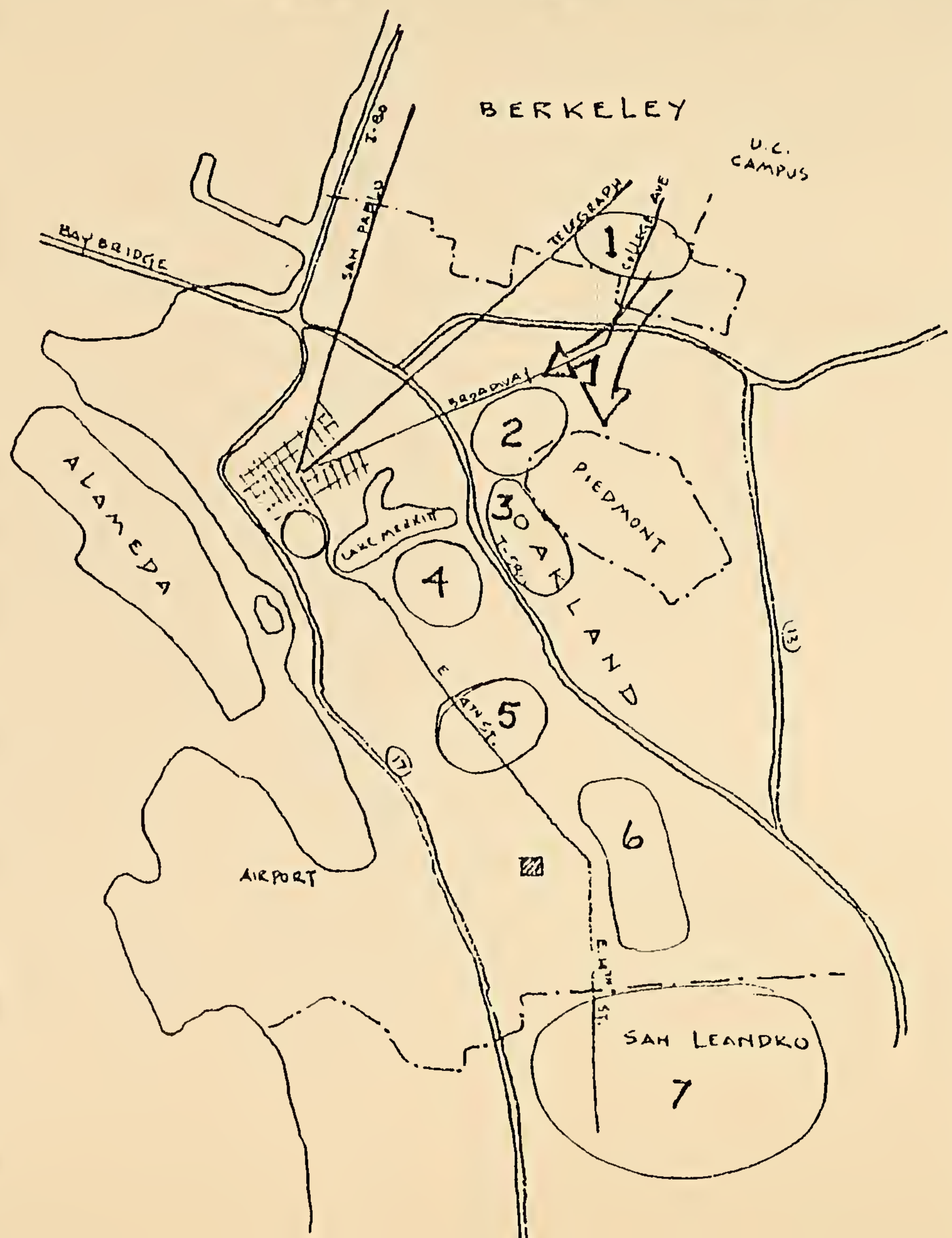


NOTES

1. PACIFIC HEIGHTS, RUSSIAN HILL, NOB HILL, TELEGRAPH HILL: have all revitalized, may even have peaked; much dislocation.
2. Chinese Middle Class has taken over from Russians; stable.
3. HAIGHT-ASHBURY: is revitalizing after decline in the late 1960's; rising.
4. SUNSET: very traditional post World War II housing; stable, potentially weak.
5. MISSION DISTRICT: sharply rising; astounding revitalization of early 20th century frame stock - bright paint, hanging plants - mixing into the ethnic flavor of 6.
6. LATTIMER: Chicano belt, much exotic life and color, wall murals; rising.
7. DIAMOND HEIGHTS: recent condominiums, new construction, high prices.
8. Black, Chicano, Samoan, Philippino areas: potential uncertainties.

Exhibit 15

Oakland Area: Notes on Market Dynamics



NOTES

1. BERKELEY: Academic, desirable, strong neighborhoods, expanding towards 2.
2. NORTH OAKLAND: Was Italian, now becoming "annexed" to Berkeley housing market, experiencing down zoning.
3. This area experienced blockbusting (perceived as potential decline) and is now rapidly rising, house prices doubling.
4. Stable, mixed, mid-low income neighborhood.
5. Latino section:private, autonomous rehabilitation going on.
6. Uncertainty, underclass relocated here into projects and surrounding neighborhood. Seen as threat to stability of San Leandro.
7. SAN LEANDRO: 1940's middle class housing. Residents concerned about changes moving south along E 14th St.

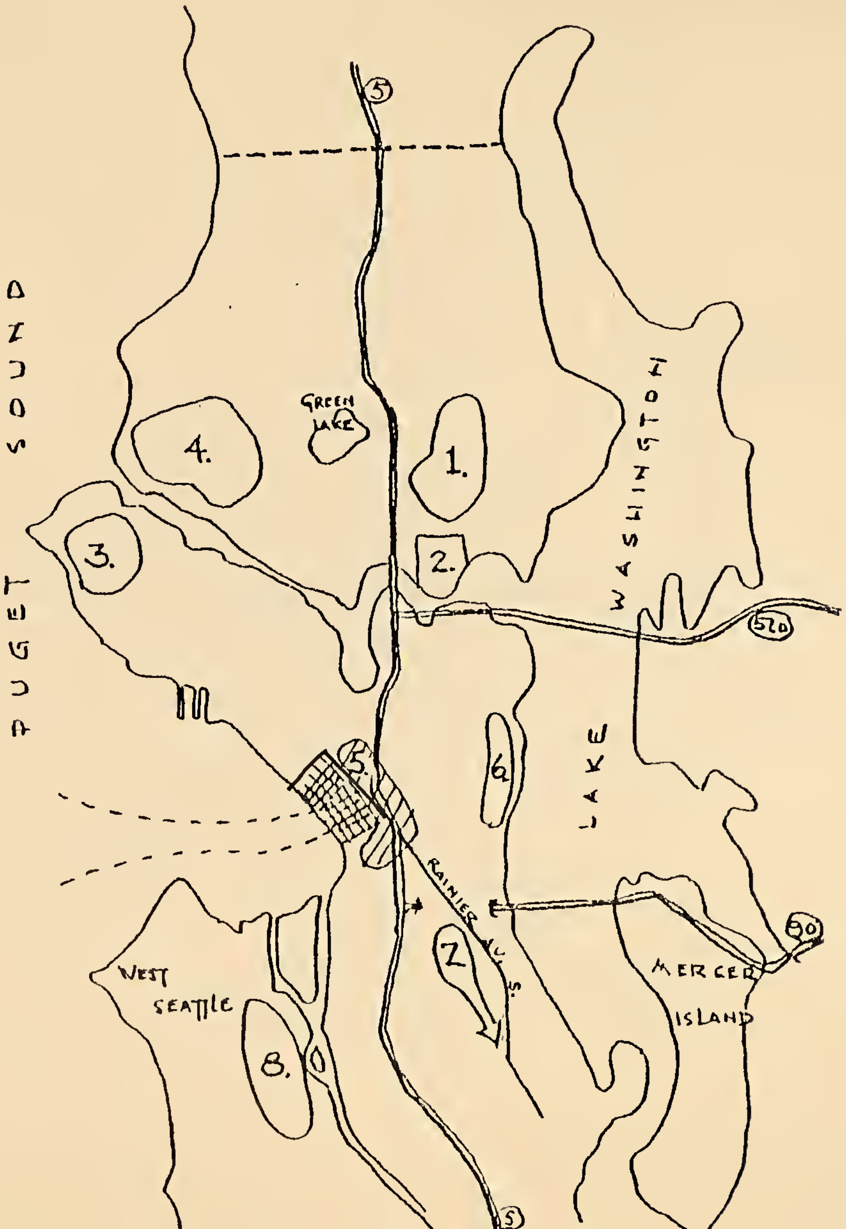
exclusive residences along Lake Washington. Returning vitality now makes this a rare, stably integrated neighborhood with upper-income whites as well as blacks forming the replacement demand involved in normal market turnover. Seattle has its pockets of decline, especially flanking Rainier Avenue South, along with many more sections, most notably north around the University and Ravenna Park, where revitalization is occurring. (Exhibit 16 sketches neighborhood dynamics in Seattle.)

On the other hand, *Kansas City* and *St. Louis* (Exhibits 17 and 18) show what happens when the metropolitan housing market is overbuilt. Like empty musical chairs, vacant units have resulted in neighborhoods near the central area as the available households have chosen what they consider the better housing elsewhere. In *Kansas City* a state line compounds the advantage of moving out--to Kansas--leaving fiscal problems behind across the Missouri line slicing through the city. Kansas City, Missouri, does have its areas of strength, notably within easy range of Country Club Plaza, several miles southwest of the central business district. This area, recently hit by floods, is one of the nation's most unique planning success stories, in which a whole residential commercial complex was built by the J.C. Nichols Company before the Depression. In the southeast quadrant, below the so-called "spaghetti belt" and east of Troost Avenue, deterioration extends into an area with mansions.

St. Louis is striving to maintain a positive public image but balkanization and suburban growth, including again an adjoining state, Illinois, pose challenges. Minority advance to the suburbs along Martin Luther King Boulevard has left decline in its wake, but St. Louis has

Exhibit 16

Seattle Area: Notes on Market Dynamics



NOTES

1. RAVENNA-UNIVERSITY: rising, older housing, thriving on hills north of Univ. of Wash.

*2. UNIVERSITY OF WASHINGTON

3. 4 MAGNOLIA, BALLARD: stable, affluent sections with good views

5. Urban Renewal activity: clearance and rebuilding.

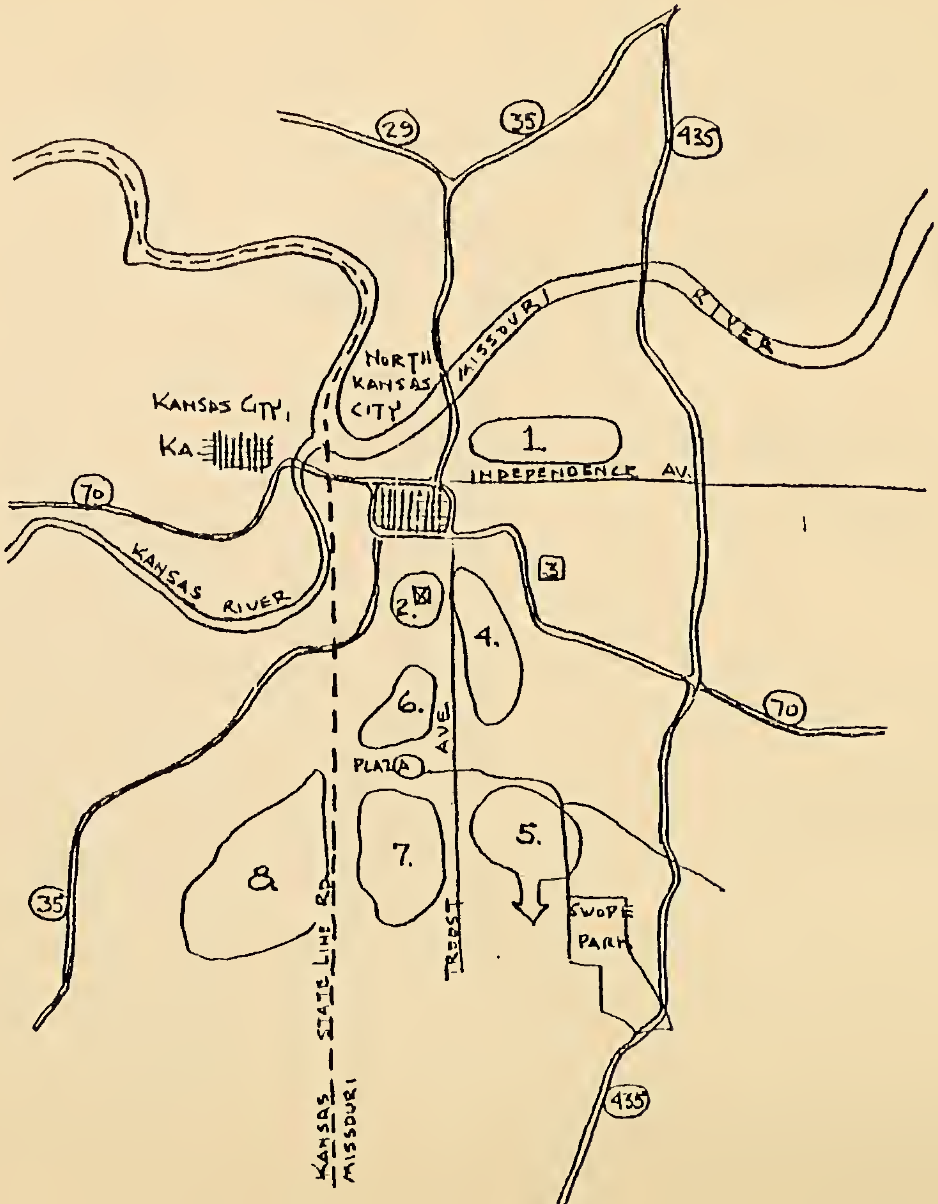
6. MADRONA: stable, integrated section, houses overlooking Lake Washington; whites re-entering neighborhood left to minorities

7. BEACON HILL: Chicano population spreading south along Rainier Avenue South.

8. Seattle Community College, South Campus: weak section; poor drainage, modest houses, no views

Exhibit 17

Kansas City Area: Notes on Market Dynamics

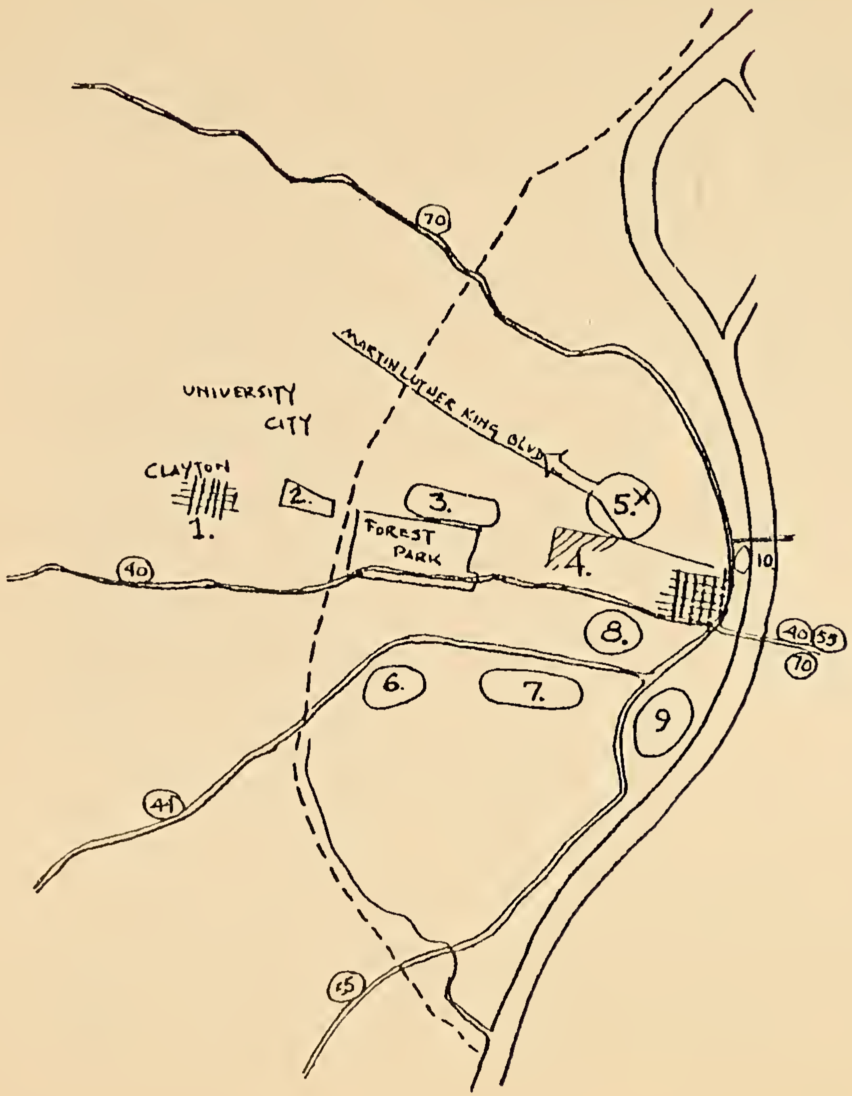


NOTES

1. "Spaghetti Belt" - stable Italian neighborhood
2. Crown Center Redevelopment
3. Prestige development for Blacks nearing (nearing completion)
4. Weak, lower-income, minority neighborhoods east of Troost Avenue; evidence of abandonment
5. Upper income Blacks moving south past Swope Park
6. WESTPORT-ROANOKE: mansion sections, coming back, north of J. C. Nichols' Country Club Plaza
7. COUNTRY CLUB: stable, affluent housing adjoining Ward Parkway mansions
8. MISSION HILLS, PRAIRIE VILLAGE: newer, prestige subdivisions, across state line in Kansas

Exhibit 18

St. Louis Area: Notes on Market Dynamics



NOTES

1. CLAYTON CBD is drawing off St. Louis CBD vitality
2. Washington University
3. LINDELL-DELMAR: stable and strong enclaves between Lindell and Delmar Boulevards are "silk-stocking;" resembling Embassy Row, but adjoining devastation on flank
4. Urban Renewal focus
5. Black population is centered west of Pruitt-Igoe (X) and migrating west down Martin Luther King Boulevard to the suburbs
6. CLIFTON HEIGHTS: strong neighborhood, nice setting
7. COMPTON HEIGHTS: rising area of older housing
8. DENTON PLACE: rediscovered Victorians
9. SOULARD: stable 1860's European working class housing

some impressively vital neighborhoods flanking this path. For example, the central West End contains eight to ten city block sections that have fenced out the uncertainties of change. Within these enclaves that resemble Embassy Row in Washington, D.C., confidence prevails. As elsewhere, revitalization is also occurring around hills and special parks: Compton Heights, Tower Grove Park, Clifton Heights and the like.

These city visits confirmed the usefulness of the conceptual framework in examining neighborhood trends in larger cities where simple filtration no longer prevails. Virtually all the visited cities had rising, stable and declining neighborhoods and, as with the Boston case, these did not simply go hand in hand with housing conditions.

3.2 FURTHER INSIGHTS FROM APPLYING THE FRAMEWORK

Although the visits to each of the cities described above were brief, they provide useful insights concerning the process of neighborhood dynamics in other cities around the country. While common impressions can be drawn from the short case study experiences, each city often contained unique features which proved to be important factors in influencing market shifts and balance.

LAG EFFECT

In the different cities visited, the proportion of the stock in each market perception/housing condition category varied. Discussions with housing actors in the cities also revealed a significant *lag effect*, i.e., revitalization had sometimes commenced in areas still perceived as declining by most real estate actors and city officials. For example, in

St. Louis, and Denver, Sunday magazine supplement articles focused on house tours and young households fixing up housing. Yet some key officials were only dimly aware of the implications of this trend, or dubious that a potentially significant trend was under way. They were still inclined to classify the areas as declining. This lag effect suggests that the variance in different actors' perceptions and may play a key role in decline and revitalizaton.

UNSTABLE EQUILIBRIUM

The cities visited also confirmed the notion that neighborhood change sometimes resembles *unstable equilibrium*, showing what may result in dangerously rapid resurgence. Let us hypothesize about the dynamics in such complex urban situations.

First, insufficient effective housing demand or difficulties in obtaining credit allow a neighborhood to decline to the point where houses are real opportunities for those with access to credit. Second, due to the lag effect, there are often conflicting perceptions of the same neighborhood, leading the pioneers to work extremely hard to develop a new neighborhood image. This often involves a new name for the neighborhood undergoing revitalization. Third, absolute numbers of new households are less significant than the new trend-setting which is occurring. The media publicity around the revitalizing pioneers opens a whole new set of options to the multitude of households currently forming who have assumed they would buy in new suburban subdivisions but who are discovering that the price is often unaffordable. Market imperfections, along

with negative image, have made some of these urban neighborhoods bargains waiting to be "discovered." Finally, energy concerns, and entry of individuals from the post-war "baby boom" into their household formation and home-buying years promise generally increased urban housing demand throughout the next decade. However, new women's career and employment patterns are bringing new household types into the market with a higher disposable income, fewer children, and a premium on being near work. All of this dictates a reexamination of traditional housing demand patterns, and for some urban neighborhoods this can mean a wider resurgence in demand.

3.3 NEW RESEARCH DIRECTIONS INDICATED BY APPLYING THE FRAMEWORK

At this early stage in conceptualizing a new planning approach, there are many loose ends. There can be no rigorous proof as yet that the conceptual framework can be turned into a conventional planning tool. While intelligent insights and educated speculations based on its application can already guide policy makers into making public interventions more predictable in their outcome, a number of avenues of further research are indicated below.

EXPLORING THE DIMENSIONS OF SUPPLY/DEMAND MISMATCH

How much disinvestment and revitalization is actually going on in any given city? As yet, this is hard to quantify, but it is already clear that three factors, in decreasing order of importance, must be considered in providing the answer.

First, the proportion of stock in a particular city in each of the categories (rising, stable, declining) is a function of regional and metropolitan strengths. Rigorous analysis was not possible in the short time allowed for field visits, but the comparative strengths of various SMSAs are readily apparent to any observer visiting a succession of cities. For example, the California Bay Area reflects its growth in a preponderance of rising neighborhoods, whereas stagnation or decline affecting parts of the Northeast shows up in urban areas experiencing relatively more neighborhood disinvestment and even outright abandonment.

Second, demand and supply must be disaggregated and analyzed separately. The constraints that may prevent supply from responding to changing effective demand are important to identify and overcome. In the Midwest, many prairies are becoming subdivisions. There appears to be overbuilding and abandonment.* In California, on the other hand, tight land use controls have prevented much new construction, leading to incredible inflation in values and outright speculation. Further, in examining demand more closely, it makes a great difference whether the demand originates from elderly or young traditional households, on the one hand, or, on the other hand, students and young professionals prone to new lifestyles. Each has its own significance.

Third, at an even finer level of detail, a host of factors comes into play. These include the school systems, tax rates, the central

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*Similar issues are examined in Leanne Lachman's "New Construction and Abandonment: Musical Chairs in the Housing Stock," <u>Nation's Cities</u>, September, 1977, pp. 14, 15, 40.

city's share of the metropolitan area, type of government, population composition, housing stock composition, and the like. *However, in spite of the city planners' traditional preoccupation with these factors, they appear to be less significant than those already mentioned.*

ISSUES OF MISMATCH WITHIN BALANCE

However, even if the overall metropolitan supply/demand imbalance is negligible (that is, the total number of households matches the number of dwelling units), current market functions may nevertheless focus demand into neighborhoods "in favor" and away from others "out of favor." Increasingly, this appears to destabilize housing demand. Turnover among homeowners is lower than the commonly cited "one in five Americans moves each year," but ownership turnover occurs naturally in all neighborhoods. However, replacement demand is increasingly out of step with these opportunities. To illustrate--a metropolitan area may have 10,000 properties turning over and 10,000 households (both those moving and potential new buyers) who are competing for 7,000 of these properties in "better" areas, and ignoring the 3,000 homes which are somehow thought to be less desirable. This resembles the Boston situation and the challenge here is to bring existing supply and demand together through marketing strategies and special fix-up incentives that effectively *self-target* to promote revitalization of weaker areas. The causes of supply/demand mismatch within regions in overall balance are not clear, and should be pursued through further research. (Appendix D describes the research approach Boston is about to undertake to refine understanding of the indicators.)

ISSUES OF GROWTH

Then there are metropolitan growth areas like those on the Pacific coast where in effect 12,000 households or more are competing for 10,000 existing properties turning over, and there has been little new construction due to tight land use controls. The competition intensifies sharply for favored areas, but here too, there are areas out of favor and even some experiencing abandonment. Thus, the Bay Area and Seattle, both with strong overall demand, still have weak sections where owners don't believe that further investment is sound. Identifying changes that would induce them to invest in these areas is clearly a research priority because aggregate demand is adequate here.

A newly emerging different challenge to planners and policy makers is to discover ways of dealing with the intense demand for housing in the favored neighborhoods. As existing properties escalate in price, speculation is touched off. People start buying for appreciation, not just to have a home. In Washington, D.C. "flipping" or buying for later resale points up this pattern. Existing owners join the trend by buying housing coming on the markets "to save for a friend" before the prices go "out of sight." This only exacerbates problems, while tax assessors, always on the lookout for revenue, reassess, and landlords (if the area contains rental units) raise rents. All these actions threaten to dislocate existing tenants and touch off investor uncertainty and political turbulence. In other words, sharply rising markets manifest a new and little explored pathology that policy makers must come to understand.

REDUCING UNCERTAINTY

At the same time the field visits uncovered some novel ways of reducing uncertainty. Reducing uncertainty is worthy of being made a separate housing policy goal. Some clues towards attaining this are found in the visited cities. For example, in certain Kansas City and St. Louis neighborhoods, reduced uncertainty about the future has induced home owners to invest.

In Kansas City, the J.C. Nichols Company appears to have been a major influence in the single-family market since the 1920s. This seems to coordinate their interests and articulate them in public policy formulation. And in St. Louis, secure enclaves have held their own amidst a rising tide of socioeconomic uncertainty and change, apparently by physically and psychologically fencing them out. The lesson to be drawn is that new forms of public/private coordination are vital to preserve the existing stock. *Uncertainty* about the future induces all actors from home owners, potential buyers, abutters to bankers, appraisers, brokers and city administrators to disinvest (or invest), triggering self-fulfilling decline if the market looks weak, and speculation if it looks like some windfall gains are possible. With more actors than ever before engaged in providing decent housing, this is a sobering realization. This multiplicity of interests is part of the problem and requires further research.

Finally, cities like Denver, with city-county coordination, and Seattle, with a particularly coherent administration, illustrate that appropriate direction and coordination from top city administrators is

important if uncertainty is to decrease and we are to fully utilize our existing housing resources.

Reducing uncertainty is a particularly important goal in the process of neighborhood dynamics. The insights above only hint at its importance. To stabilize neighborhoods and maintain their vitality, we must come to a better understanding of how to reduce uncertainty regarding the forces affecting the future of each neighborhood.

4 POLICY RECOMMENDATIONS: HOUSING STRATEGIES TAILORED TO NEIGHBORHOOD DYNAMICS

As yet there has been little research on how neighborhood well-being can be monitored and confidence built. Without this sensitivity, policy makers who seek to revitalize neighborhoods are confused with conflicting objectives, and as a consequence it is difficult for clear policy recommendations to emerge. The national housing policy debate revolves around which is more important: maximizing housing choice, fixing up houses, restoring the tax base, promoting integration, housing the disadvantaged, or bringing the middle class back to urban living? Failure to rank these objectives in some order or priority and to identify explicitly the optimal strategies for each objective underlies the continuing housing policy debate. Explicit discussion of these objectives and their inherent conflicts is vital before the national policy map can be resolved.

To help such issues fall into place we assert first that the primary role of public policy is to build neighborhood stability (or if you will, to bring neighborhoods to the central, stable column of the conceptual framework presented in Section 2 or to the area of the "golden mean," Exhibit 19 below). Second, strategies must be tailored to neighborhood housing market dynamics. After consideration of the first assertion, we devote our attention to strategies tailored to specific neighborhoods, a detailed discussion of which is given in

Appendix C. Finally, in the last part of this section, we review some of the obstacles that hinder implementation and require creative approaches if they are to be overcome.

4.1 BUILDING NEIGHBORHOOD STABILITY

To promote neighborhood stability in ways that enable incumbents to remain and for new residents to successfully become integrated into vital diverse neighborhoods would seem an ideal housing goal. This goal is within grasp in many areas throughout this country if we can take advantage of the opportunities current demographic trends offer. Housing policy has been preoccupied for the last twenty years dealing with the effects of abnormally low overall housing demand--and this situation is about to reverse as staggering numbers of new households across the nation reach the age of settling down--far more than new construction can possibly accommodate. This tidal wave requires that housing policy makers shift their focus from symptomatically treating blight and deterioration to devising means of influencing housing demand and supply in ways that stabilize neighborhood dynamics.

The golden-mean concept illustrates how we must discriminate between various types of deteriorating neighborhoods. Abandonment and price changes are too late and too crude to serve as useful signals of market dynamics; more current and sensitive indicators are there if only we will look for them instead. The challenge is to shift the focus of planners away from simply administering HUD programs and toward increasing demand where it is weak and areas are *declining* and "cooling it" where markets are *rising* and the result is dislocation and speculation instead of stable, rooted tenure. Exhibit 19 lists

the corrective remedies in a general way, but each city must tailor these to its particular circumstances.

Policy interventions can be most effective if interventions are applied before market dynamics become extreme. If the gentrification process moves too quickly or is too far along, displacement and disruptive relocation occurs. On the other hand, in the most seriously deteriorating areas there is little along the lines of a housing strategy that is likely to prove effective. Rather than a housing program, what is required is a jobs and income maintenance or housing allowance strategy. In such areas disinvestment has been going on for years, and it is too late to achieve any reversal of attitudes through the traditional policy instruments of code enforcement, insured loans, fix-up grants, etc. Rather, the heart of the problem--income and tarnished neighborhood image--must first be addressed.

The optimal housing policy course, then, is to build confidence among all the relevant actors in the early stages of comeback from decline, but then enabling the incumbents to remain through the later stages, when improvements raise expectations which lead to increasing property values and speculation. Fine-tuning public and private bureaucracies so their actions feed back to stabilize the market is not easy, until some indices or "barometers" of homeowner and investor confidence are accepted, but the basic tools to be applied are currently available. A review of these tools and how they might be applied in specific neighborhoods follows.

Exhibit 19

Policy Mean Lies Between Extremes

Neighborhood Market Types	Rising (Gentrifying)	Stable Or Ideal	Declining (Disinvesting)
	++		--
Symptoms Indicators (or Causes?)	• Excess demand • Price inflation (real or anticipated) • Speculation • Strong press image • Inmigration of higher class • Investment purchases • Conversion of marginal space into more dwellings	G O L D E N	• Excess supply • Uncertainty in property values • "Red-lining" • Negative press image • Departure of the able • Discretionary sales • Increase in low down payment and/or government insured lending • Increase in absentee ownership • Rising tax delinquency • Property abandonment
Corrective Remedies	• Dampen outside demand • Assist disadvantaged to remain • Enforce code • Prevent illegal conversions • Reassess only upon sale • Control rents if necessary • Construct additional housing	M E A N	• Boost neighborhood image • Value insurance for resident owners • Improve jobs and income without stigma • Support NHS if requested • Demolish excess housing (or mothball) • Land bank vacant lots until stable

4.2 A VARIETY OF HOUSING STRATEGIES

Based on an understanding of neighborhood dynamics it is possible to outline a series of strategies tailored to neighborhood dynamics depending on whether the market reflects stable, rising or declining dynamics. Exhibit 20 summarizes these revitalization strategies, and specific strategies regarding this Exhibit are discussed in detail in Appendix C. Several general points should also be stressed.

First, public policy must be designed to increase the confidence in the future, not simply to underwrite fix-up costs. Without replacement residents to fill the vacancies of those who move away through natural turnover, any neighborhood quickly becomes blighted. Second, a housing restoration program must distinguish between strategies which are designed to upgrade the housing in a neighborhood and those which are designed to help the people. For example, in a rising market, private forces may assure the upgrading of the physical attributes of the neighborhood, and it is the needs of the residents who are being forced to relocate that must be dealt with. Third, neighborhood strategies must be formulated within a citywide and nationwide housing policy context. Certain elements are essential in almost all programs; it is their application that must vary. These elements include adequate credit; equity in, and reduction of, the burden of property taxation; reorientation of city agencies (such as code enforcement) toward serving the housing consumer; availability of public sector funds to inject at

Exhibit 20

Strategies for Neighborhood Housing Revitalization

Market Perception

Housing Condition	Rising	Stable	Declining	Rapidly Declining
Good Minor Repairs Required	G/R -dampen outside demand -assist residents to remain -construct additional housing	G/S no special neighborhood actions		
Fair Moderate Repairs Required	F/R - code enforcement - prevent illegal conversions - increase resident ownership - possible rent control - new elderly and mixed income housing	F/S - code enforcement - technical assistance - tax incentives for repairs	F/D - demolish excess housing - value insurance - Neighborhood Housing Services, if requested - direct household assistance - quotas on occupancy	
Poor Major Repairs Required		P/S - code enforcement - technical assistance - special loan fund - homesteading - demolition - new elderly and mixed income housing	P/D - direct household assistance - demolition	P/RD - direct household assistance - relocation - demolition

Source: Goetze, Rolf, Building Neighborhood Confidence, Ballinger, Cambridge, Massachusetts, 1976, p. 45.

the margin so as to stimulate confidence; reorganization of city agencies to improve the delivery of housing services; and developing better partnerships of public and private efforts. Finally, a housing restoration program must distinguish between problems which can be resolved by a single injection of public resources as contrasted with problems that will require more sustained public support like income maintenance or transfer payments. In areas where household income was adequate to guarantee routine upkeep, one-shot fix-up funds like Section 312 and 115 loans and grants coupled with areawide code enforcement were effective in returning areas to good condition. But in some lower income areas, these tactics only temporarily improved housing because inadequate cash flow is again leading to deferred maintenance.

The emerging policy recommendations set forth in this paper, then, will add the dimensions of neighborhood dynamcs and movements of people to housing conditions to arrive at a newly orchestrated set of housing tools. (See Appendix C for a detailed listing of some of these tools.) Many of these tools have been available for a number of years and there is nothing magic or absolute about them. Based on individual needs, preferences and experience, particular cities may want to alter or shift the emphasis of the programs outlined. The most important point is that strategies must be tailored to neighborhood dynamics--what may prove effective in one neighborhood facing one set of market and housing dimensions may be counterproductive in another. Based on this perspective, six general *policy guidelines* can be identified.

1. Public resources must be invested in ways which build on market strengths and accommodate market weaknesses; their objective must be to increase private sector confidence and investment of resources rather than simply to underwrite costs.

2. Subsidies must be carefully designed and administered to promote general neighborhood confidence and continuing conventional maintenance rather than dependence on more subsidies. If non-recipients (instead of continuing to maintain their structures) become jealous of beneficiaries, or wait for "their turn" at a subsidy that may never extend to all qualified applicants, then the subsidy is counterproductive. General and lasting public benefits to those other than the immediate recipients must be evident to justify limited housing subsidies.

3. Policies affecting housing cash flow--code enforcement, property tax assessment and collection, and rent control--must emphasize and provide incentives for preservation of the dwelling structure.

4. Housing policy must be comprehensive and formulated in consideration of all neighborhood submarkets and their interrelationships, rather than selectively concentrating on a few neighborhoods which have reached a highly deteriorated state. Nevertheless, strategies must be tailored to the characteristics of each market area, and must address themselves to problems shared by most housing suppliers and consumers.

5. Forms of housing assistance--cash payments, credit of technical assistance--should stress aid to the household rather than to the shelter itself, increasing freedom of choice, access to new forms of ownership, and improvement of skills.

6. Given limited city resources without large-scale federal subsidies, a high priority must be placed on preserving neighborhood confidence. Stabilization and preservation efforts require only a fraction of the resources required for new construction or for

> futile efforts to prematurely restore confidence in areas of serious deterioration. Preventive care today would obviate the formidable efforts otherwise required in the future to reverse decline and demolish and replace existing housing.

4.3 IMPLEMENTATION CHALLENGES

The previous section developed the theme that neighborhood stability is the key and that housing and neighborhood policies must be based on an understanding of neighborhood dynamics and the underlying factors. Different policies must be established for varying neighborhoods and such policies must be sensitive both to market demand and to the people who live and move in and out of those neighborhoods. It is easy to espouse such an approach. However, when faced with the practical problems of implementation, initial hopes are often frustrated. Policy makers at the federal, state and local level are faced with a number of constraints. These obstacles must be recognized at the outset of the policy formulation process, since, if allowed to remain unexposed, they will continue to indirectly hurt and complicate the success of a well-conceived program. The five problem areas listed below, although not intended to be comprehensive, illustrate some of the more frequent constraints that often paralyze housing policy formulation.

DEALING WITH HIDDEN GOAL CONFLICTS

It is commonplace for decision makers in the public sector to be faced with a situation wherein multiple and often conflicting goals are involved. For example, in working in inner-city housing and

neighborhoods, is the basic goal to upgrade the housing stock or to help the people who are living within? On the one hand, planners stress the need to revitalize the inner-city and to improve the lagging economic and tax base. On the other hand, they seek to maximize the choices of existing residents. Should assistance be channeled to developers so they build or rehabilitate housing, or to the residents directly? Naturally, all hope both objectives can be achieved at the same time, but often objectives conflict. Decision makers must explicitly recognize such conflicts and consciously examine the tradeoffs and inherent problems involved.

OVERCOMING BUREAUCRATIC RIGIDITY

Government red tape is infamous and requires no lengthy discussion in this paper. Yet good intentions are not enough, and some type of guidelines must be set when government programs are initiated. Who will qualify for new housing services and in which neighborhoods? Once such guidelines are established, though, they will immediately begin to complicate and frustrate initial intentions.

Code enforcement can serve as an illustration. The goal of code enforcement is to encourage homeowners and non-resident landlords to upgrade housing to a minimum standard. When coupled with fix-up assistance or tax subsidies to encourage rehabilitation, the "stick" of code enforcement can be appropriately matched with the "carrot" of incentives. However, an absolute standard of code enforcement fitting all houses in all neighborhoods seems an impossibility. A resident owner may be willing to upgrade, but financial resources may limit his

ability to bring the house all at once up to citywide standards. While in many cities this leads to a paralysis of any meaningful code enforcement effort, a number of cities setting up Neighborhood Housing Services under the Urban Reinvestment Task Force have evolved a solution. While we cannot describe it in detail here, citizen involvement, professionalizing the code staff, escrowing rents, and standardizing the scoring of violations all help to overcome simple bureaucratic rigidity.

OVERCOMING THE PROBLEMS OF TARGETING

When federal or local money is applied, it is often necessary to set boundaries. Since resources are inadequate to provide money for all, lines must be drawn. Once the boundary is drawn, though, conflicts often arise. Any line discriminates against those on the other side of the street. It is not easy to explain to an irate owner that his neighbor can receive a special loan at low interest from the federal government, but he does not qualify. And even after the initial commitments have been discharged within the target area, those just on the outside will desist from normal maintenance, hoping they too can receive special treatment. Thus the very act of targeting special assistance may result in a net reduction of private or even total effort. Political considerations frequently force the targeting of inappropriate areas. Self-targeting programs provide a solution to these problems. For example, a fix-up incentive program geared to those with moderate code violations (such as the Housing Improvement

Program of tax incentives in Boston described earlier) can self-target to appropriate owners and neighborhoods.

DEALING WITH UNIONS AND ORGANIZED LABOR

The Urban Homesteading Assistance Board experience illustrates dilemmas posed by the entry of organized labor (U-HAB). The U-HAB program in New York City is a self-help housing program for multi-family apartments. Living on a "shoestring," U-HAB has survived the housing moratorium of the early 1970s and the New York CIty fiscal crisis. However, it recently received a large block of Section 8 funding and the U-HAB program is now encountering a new set of problems. As long as the U-HAB effort has been on a small scale, incremental building-by-building basis with a great deal of sweat equity homesteading, they have received virtually no opposition from organized labor. As I.D. Terner states in a recent article, "the small scale diverse and disperse nature of individual projects mades homesteads a relatively uninteresting project for union leaders looking to secure a large scale source of employment for their rank and file." However, with the presence of Section 8 money, this situation appears likely to change. "If federal participation now means that sweat equity urban homesteading in New York will be aggregated into large, identifiable groupings or projects, the bureaucratic work-load will no doubt be eased, but labor demands may mount. This would spell doom for homesteading, which could not remain economically viable with the shift to union wage levels."* The lesson is clear: HUD

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*Ian Don Terner, "Will Success Spoil Homesteading in New York City," Perspecta, Journal of Yale School of Architecture.

will sooner or later have to resolve whether housing within people's means or union jobs take priority. This is a good example of a hidden goal conflict.

PREVENTING ADDICTION TO FEDERAL ASSISTANCE

Federal and even local support is often assumed to be essential to urban neighborhood revitalization. In fact, recent experience indicates some of the most vital neighborhood rebuilding takes place without federal subsidies and is based on a creative self-help approach to upgrading. Yet many believe that without outside funding many efforts would never be started. While pump-priming is a sound principle, it is unwise to do it too long without results. When money comes from the outside, it seems basic guidelines and standards must apply. Red-tape blight may be the other side of the coin of federal assistance.

It is possible for neighborhoods to become hooked, and for independent and creative activity to subside and perhaps eventually die. This situation occurs when program impact is inequitable, when comparatively few receive benefits and the many others no longer see it in their self-interest to continue without assistance to them as well. When a few get rent subsidies or subsidized loans, why shouldn't the majority want their share (many times the original outlay) as well? The solution is to either qualify all eligible recipients, scaling down per-capita assistance, or to determine an attainable goal jointly with the neighborhood and to grant the neighborhood a fixed allocation to attain that goal, a true form of pump-priming.

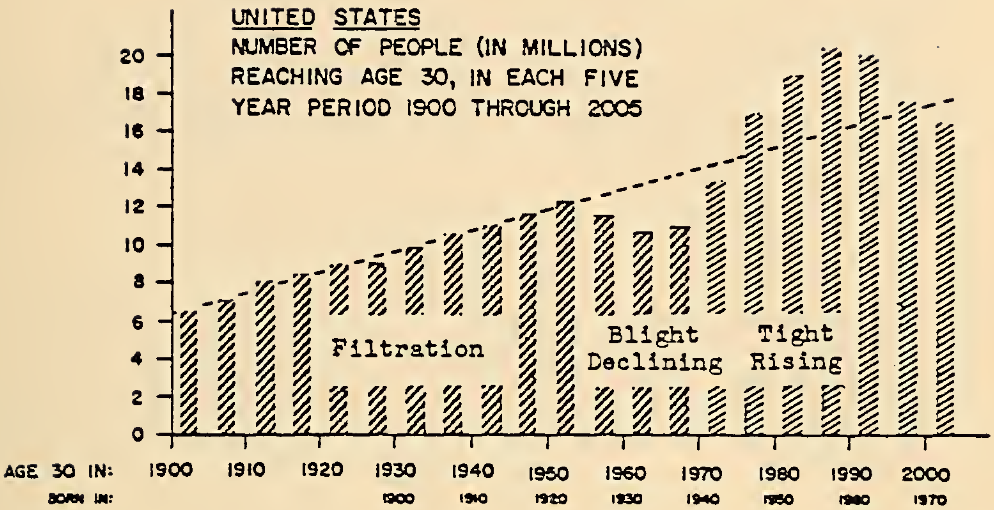
5 CONCLUSIONS AND RECOMMENDATIONS

Maintaining the health of existing urban neighborhoods requires an approach radically different from the special interventions devised during the 1960's, such as Urban Renewal, FAIR plan insurance, FHA mortgage insurance, HUD subsidized loans and the like. Not only is it becoming clear that resources are inadequate to equitably serve all of the potentially eligible households, but the programs themselves often appear to be counter-effective. Instead of developing more such programs, we need to examine and understand the dynamics of healthy and declining neighborhoods more closely so we can identify how the prevailing system works and how it breaks down in certain areas. Much of our housing policy system in the past has been formulated on the idea of filtering or "trickling down" which accepts deterioration as inevitable.

Examining the *tsunami* curve of household settlement, Exhibit 21 suggests that filtration theory was most appropriate to the steady growth period ending around 1955. While we may consider the last twenty years "normal," the *tsunami* curve shows they were not. Blight may be a response to an overall slackening in settlement, the rate of new households forming and settling down. The nation is now entering a new period of settlement rapidly accelerating beyond the response capacity of the homebuilding system. This threatens to sharply inflate the value of the existing stock. Unless public policy intervenes, the more able will obtain their housing from the less advantaged, and the price of housing will take an increasing bite ouf of every household budget.

Exhibit 21

Curve of Household Settlement



The filtration theory only accounts for one form of neighborhood deterioration; close inspection reveals that filtration fails to fit the current situation. Instead, we have proposed a stabilization theory to cover the period 1955 to 2000, based on the concepts of supply and demand. The stabilization theory identifies a "golden mean" between market extremes as shown in Exhibit 22 . As market demand surges, areas considered declining will be rediscovered and will rise. Unless public policy makers are aware of the shift, special public assistance like Section 312 loans or FNMA revitalization programs will simply aid the "gentry" in taking over the neighborhood from absentee owners and lower income tenants, displacing the latter. "Unslumming" was the term Jane Jacobs used, and her analysis still applies.

Exhibit 22

Stabilizing Neighborhoods

Neighborhood Market Types	Declining (Disinvesting)	Stable Or Ideal	Rising (Gentrifying)
	--		++
Symptoms Indicators (or Causes?)	• Excess supply • Uncertainty in property values • "Red-lining" • Negative press image • Departure of the able • Discretionary sales • Increase in low down payment and/or government insured lending • Increase in absentee ownership • Rising tax delinquency • Property abandonment	G O L D E N	• Excess demand • Price inflation (real or anticipated) • Speculation • Strong press image • Inmigration of higher class • Investment purchases • Conversion of marginal space into more dwellings
Corrective Remedies	• Boost neighborhood image • Value insurance for resident owners • Improve jobs and income without stigma • Support NHS if requested • Demolish excess housing (or mothball) • Land bank vacant lots until stable	M E A N	• Dampen outside demand • Assist disadvantaged to remain • Enforce code • Prevent illegal conversions • Reassess only upon sale • Control rents if necessary • Construct additional housing

A number of general conclusions are outlined below. From these general conclusions flow specific recommendations along two fronts: research to test and confirm the stabilization theory, and action demonstrations.

. Revitalization strategies must be tailored to stabilize neighborhood dynamics. Traditional assistance tools may be appropriate for stable neighborhoods where supply matches demand, but their effectiveness appears limited even here where stability already prevails. The current inequitable forms of subsidies and tax concessions can arouse jealousy or fears and discourage conventional actors from continuing to maintain and invest. These tools can undermine neighborhood well-being. The problem is even more severe for the neighborhoods where supply and demand are becoming mismatched. The new focus of public policy should be to understand these mismatches and to correct them before they become wasteful and traumatic. In weak areas simpler, more direct owner and tenant assistance is required to rebuild neighborhood confidence and induce more demand while encouraging residents to remain. At the same time, the excessive demand affecting certain neighborhoods should be channeled off into essentially similar, but as yet less chic sections.

- Policy makers must find unobjectionable ways to classify neighborhoods. While there is a natural fear that such a classification will be self-fulfilling or stigmatizing, the other actors--buyers, sellers, residents, lenders, appraisers, brokers, etc.--are doing this anyway and imperfectly or incorrectly. Racial change is the simplest example, but the introduction of government-insured lending serves as an indicator of destabilization in subtler ways.

- In order to design sensitive revitalization strategies, further indicators must be developed to monitor status and change. How do neighborhoods respond to interventions, and what counter-indicators can be identified so as to inform us in time to avoid situations when residents begin to disinvest or leave? Such signalling devices will help us to reveal whether our current tools promote or undermine neighborhood well-being. Appendix D outlines a number of possible indicators which will allow a more effective early warning system and a beginning method for classifying neighborhoods. Further research is required, though, to perfect such systems.

- Self-targeting, self-regulating, and self-initiating mechanisms become more important than the traditional tools in stabilizing and revitalizing neighborhoods. Such mechanisms should be inventoried and classified. "Neighborhood Preservation: A Catalogue of Local Programs," done under HUD contract by the Real Estate Research Corporation, represents an initial step in this direction.* These programs should be re-evaluated in light of the neighborhood stability theory: Which ones still appear effective? To what neighborhood types are they each appropriate? Which ones masked continual pump-priming? Which ones could be self-targeting or self-regulating?

- As we monitor neighborhood dynamics and change perhaps a relevant illustration lies in driving down the road into the future. All neighborhoods can be seen as

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* "Neighborhood Preservation: A Catalogue of Local Programs," prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development, February 1975.

traveling into the future. We need a feedback system to track our progress and identify when we are drifting to the edges. As long as we move on course, there is no need for public intervention. However, if the course begins to veer, if the neighborhood path becomes erratic into speculation on the one side or disinvestment on the other (or if a neighborhood is caught oscillating between speculation and disinvestment), then self-targeting tools (such as tax incentives for fix-up, favorable mortgage terms, direct homeownership incentives, etc.) should be triggered so as to help re-direct neighborhood dynamics back towards stability and the golden mean. The task of refining such mechanisms and tools is a bold new challenge that we cannot avoid. If we can agree upon the concept and new approach, then the stage will be set for a second round of progress.

5.1 RECOMMENDATIONS FOR POSSIBLE RESEARCH

What are the next research oriented steps to begin to achieve these objectives? At least four specifics are suggested from the discussion above:

1. Existing (and potential) HUD programs and local neighborhood preservation and improvement efforts should be matched aginst the concepts developed in this report to identify where they are most likely to succeed and where they might be self-defeating. The emphasis for the future should be on self-targeting, self-regulating initiatives, but in the meantime the realities of current legislation and regulation must be considered.

2. Indicators of neighborhood dynamics should be developed and tested. We need some type of "early warning system" to provide rapid feedback into corrective actions. This report suggests a number of potential indicators, but these must be refined and expanded.

3. Further research is required so as to test the general application of these concepts. This report has by necessity relied upon the case approach. Further analysis is required so as to examine

the relevance of these principles in a wide range of cities around the country.

4. And finally, if these concepts are confirmed by the above tests, effective ways to reorient policy makers must be devised to reduce further counter-productive efforts based on obsolete concepts.

5.2 RECOMMENDATIONS FOR POSSIBLE INITIATIVES

A rare opportunity underlies the confusion which currently surrounds revitalizing urban neighborhoods. Housing trends have been sorting out people by race and class to point where our diversity is usually only glimpsed in stereotype through the media. But revitalizing neighborhoodspresent opportunities for a new departure: the poor and ethnic incumbents have neighborhoods the younger and more affluent want. Can the neighborhoods be shared or will the more affluent simply dispossess the so-called disadvantaged? If a compromise can be developed, vital, diverse neighborhoods will result, forging a new partnership between private initiative and public assistance. However, we must move now for the opportunity will be short-lived. In little more than a decade, the bulging generation of postwar babies that left in its wake strains in the educational and employment systems will have settled down somewhere, making the best out of necessity. Only now can we influence where the households settle. A new trend among them is to choose urban, ethnically diverse neighborhoods. These households are choosing to live among the existing residents. Public assistance can enable the latter to remain. Public policy can join private initiative to preserve the rich neighborhood fabric that is developing.

New approaches should be tested that help build neighborhood confidence. We have already outlined strategies to help maintain stability for neighborhoods which begin to divert from the "golden mean" of neighborhood stability. However, for both disinvesting and gentrifying neighborhoods, we recommend the following types of initiatives on a suitable demonstration scale (perhaps a score of neighborhoods nationally).

<u>For disinvesting neighborhoods experiencing outmigration</u>: Since resources are inadequate to assist all eligible households in distressed neighborhoods, we suggest intervening on a demonstration basis in sample neighborhoods at the point when the number of lower income households remaining has dropped to two-thirds. There is no experience to predict resulting investments and movements, but on an experimental basis these households should be given the opportunity to make their own choices. This mechanism would self-target to aid the seriously disadvantaged, instead of "creaming" like most interventions. Direct assistance on a finders-keepers basis to <u>all</u> eligible households, coupled with counselling and code enforcement (drawing on experience of the Springfield Experimental Housing Allowance Program), should be tried to learn the impact of demand-side interventions in seriously distressed neighborhoods. The total number of neighborhoods nationally that have undergone serious trauma is relatively low, but here supply-side interventions to "save the neighborhood" have generally failed to aid the most helpless residents; it is time to learn more about the actions the residents would take before events consign their neighborhoods to triage.

For gentrifying neighborhoods experiencing inmigration: Here an effort should be mounted to prevent involuntary dislocation by market forces. The Neighborhood Housing Services and Neighborhood Preservation Program initiatives supported by the Urban Reinvestment Task Force provide sound models that permit the careful introduction of limited but tailored assistance. In each neighborhood, NHS-type initiatives (reflecting community, private and public interests) should be developed and then allocated a fixed but adequate amount of resources to safeguard the rights of incumbents: housing fix-up incentives, modeled on Boston's cash-rebate Housing Improvement Program; a fixed block of Section 312 loans to lower income owners; "Section 8 existing" to eligible tenants, affording them choice and mobility; and NHS-type technical assistance, counseling, and consumer advocacy to leverage private and public sector commitment and support. The complex problems of coordination, uncertainty, and dependency discussed in this paper as primary factors destabilizing neighborhoods must be avoided. This structure provides the most promising format for doing so.

In a few years it will be apparent how extraordinary the chances are at this time. The opportunity is now and ripe, but fleeting.

"This time, like all times, is a very good one if we but know what to do with it." Emerson

APPENDIX A

PRELIMINARY INDICATORS

The validity of any analysis based on the foregoing conceptual framework is dependent on the accuracy of the measures used to classify housing conditions and market perception. The techniques used in the initial development and validation of the framework in Boston are discussed briefly here. A description of recent refinements is given in Section 2.4, and the potential for further development is explored in Section 5 and Appendix D.

HOUSING CONDITIONS

Rehabilitation specialists from the Housing Inspection Department examined all residential areas outside of urban renewal areas and conducted exterior inspections of one-third of this stock. Their experience with this type of housing, gained from handling work write-ups and rehabilitation supervision under Boston's federally-assisted code enforcement program, has shown which exterior clues are associated with interior deficiencies. (e.g. outside wiring connections reveal whether the structure is wired "up to code.") For urban renewal areas, Boston Redevelopment Authority data was examined within the framework of this same methodology.

The presence of lead-based paint was not a critical issue at the time of the survey and should be separated from other dimensions of housing deterioration. Virtually any structure built before 1950 (i.e., most of the housing in Boston, Cambridge and the close-in suburbs) contains lead paint. Costs and techniques for removing this hazard vary with the particular structure, but average at least $1,000 per dwelling, exceeding over a quarter of a billion dollars for the affected stock in Boston alone.

MARKET PERCEPTION

As noted above, market *perception* is used in place of objective supply and demand data in the conceptual framework. In the first place, the actions of homeowners, investors, lenders, realtors, insurers and other housing participants with respect to housing maintenance, upgrading, sale or purchase follow more from their perceptions than from objective conditions. Second, standard data sources, such as U.S. Census reports, postal surveys and mortgage listings, reveal *changes* in housing sales values, rent levels, vacancy rates and turnover rates only after a time lag, and fail to discern directly the factors influencing investors.

For example, the opening of a new University of Massachusetts campus as well as the proposed JFK Library nearby at Columbia Point in Dorchester

are already perceived as reversing a long declining trend in adjoining neighborhoods by introducing new buyers, but hard evidence on the impact is still inconclusive. Similarly, a stable neighborhood may begin to decline because long-term resident owners are now quite elderly. It is likely that too many structures will come up for sale in the next decade compared to the current number of buyers. While imaginative interpretation of census data would have uncovered this inference, analysis of trend data cannot tell us whether an equal number of new buyers to balance sellers will be available.

In practice, census data, mortgage trends, and numerous interviews and impressions must be integrated in classifying each neighborhood. For this assessment of market perception in Boston, the BRA planning and research staff pooled their efforts. 1960-1970 census data interpreted dynamically furnished the background. Interviews with brokers and lenders, as well as district planners' experience with community groups, furnished valuable clues, but the interpretation remains largely a subjective exercise. These appraisals are *consensus perceptions*, which can alter within a few years. They do not promise that an area will rise or decline in market value; they merely reflect the climate in which housing entrepreneurs in these neighborhoods are *currently* acting. There is, of course, the danger that the classification is self-fulfilling, that labeling an area as declining *causes* its decline; but this must be balanced against the dysfunctions of devising policy in ignorance.

It is interesting to note that one clear correlation with declining demand which emerged is difficult to obtain from conventionally available data: a reduction in gross rent multiplier--the ratio between market value and annual gross rent. It seems that resident owners keep rents modest to retain traditional tenants, but as effective demand slows and some of these structures come on the market, they are sold for less than before, and the new owners, usually absentees, charge more to a new set of tenants who are often perceived by existing residents as of "lower status."

APPENDIX B

MULTIFAMILY HOUSING DYNAMICS, AS INDICATED BY BUYER AND SELLER CHARACTERISTICS

Maintaining the health of existing urban neighborhoods requires a radically different approach from simply intervening with recently developed housing tools, such as Urban Renewal, FHA mortgages, FAIR plan insurance, HUD subsidized loans and the like. Instead, we need to examine and understand the dynamics of healthy and pathological neighborhoods more closely so we can identify how the prevailing system generally works and how it breaks down. Our housing policy has largely been formulated on the idea of housing "filtering or trickling down" while people move up, but this idea now frequently fails to fit the facts. Neighborhood change and response to interventions often seem unpredictable. A new theory based on the inherent strength of existing stable urban neighborhoods to stave off forces that lead to disinvestment on the one hand and speculation on the other would be more useful than one that accepts deterioration and obsolescence as inevitable. This paper seeks to contribute to such a theory. While the data presented here are drawn from research in multi-family housing, many of the inferences apply to single family housing as well.

The Case of Two Specific Buildings

Let us begin with a hypothetical property in the Fenway section of Boston whose case history is abstracted from Boston Redevelopment Authority research into housing dynamics. Here, within walking distance of Symphony Hall, Northeastern University, and The Boston Museum of Fine Arts, a

neighborhood called Seven Streets has experienced traumatic changes in the last fifteen years as students displaced long term family and elderly tenants, only to find in turn that minorities, then hookers and addicts are moving in on their heels. Sensationalizing reporters call it a disaster like the South Bronx.

This illustrative example could be called the Case of Two Buildings in Boston, identical in appearance and on the same street, but one in long-term ownership, the other changing hands several times to take advantage of appreciation and to avoid losses. Ownership turnover correlates inversely with condition and financial stability. Here we will explore this interrelationship more closely, abstracting data from forty building case histories in the area. Data were compiled from the records of the Tax Assessor and Collector-Treasurer, Rent Control, Registry of Deeds, as well as through interviews with owners, tenants, managers, investors, lenders, appraisers, and some newspaper reporters.

The Experience with a Single Owner

The many complex interlinked factors in the multi-family market system can best be understood in a composite case. Figure A reveals the change over the last dozen years in a prototypical thirty unit apartment structure. It shows gross rent, operating expenses and property taxes in 1964 and 1976 as well as some financial indicators used in conventional analysis. Because the analysis offers some startling insights, it is worth following closely.

Gross annual rent (line 1) reflects a change in monthly rents from around $83 monthly per apartment to $189, roughly in step with inflation over the period.

Figure A: ONE OWNER Fenway Building Financial History (30 Apartments)

		1964	1968	1972	1976
1.	Annual Gross Rent	$ 30,000			$ 68,000
2.	Operating Expenses	10,000			25,000
3.	Property Taxes	7,000			23,000
4.	Owner's Net Income (before financing)	13,000			20,000
5.	Cap Factor	.087			.125
6.	Imputed Market Value	$150,000			$160,000
7.	Outstanding Mortgages	105,000			60,000
8.	Owner's Equity	45,000			100,000
9.	Gross Rent Multiplier (GRM)	5.0			2.3

Figure B: SEVERAL OWNER Fenway Building Financial History (30 Apartments)

		1964	1968	1972	1976
1.	Gross Annual Rent	$ 30,000	$ 50,000	$ 70,000	$ 68,000
2.	Operating Expenses	10,000	12,000	17,000	25,000
3.	Property Taxes	7,000	8,000	20,000	23,000
4.	Owner's Net Income (before financing)	13,000	30,000	33,000	20,000
5.	Cap Factor	.087	.10	.10	.125
6.	Imputed Market Value	150,000	300,000	330,000	160,000
7.	Outstanding Mortgages	105,000	255,000	285,000	250,000
8.	Owner's Equity	45,000	45,000	45,000	(90,000)
9.	Gross Rent Multiplier (GRM)	5.0	6.0	4.7	2.3

Operating expenses (line 2) more than doubled, while city taxes on the property (line 3) more than tripled (primarily due to changes in the tax rate, not reassessment - for years Boston has not regularly reassessed real property). The owner's net income before financing (line 4) increased only a little over 50 per cent because operating expenses and property taxes have claimed more than their share of the increased rents.

This investment in real property has been yielding this one owner a steady and reasonable return on equity, while the value of the structure has actually declined when measured in constant dollars. ($160,000 in 1976 have less purchasing power than $150,000 did in 1964.) This investment resembles a high yield bond in some ways, but is much riskier.

While the market value of the property has risen only marginally (line 6, based on dividing line 4 by line 5, the market rate capitalization factor), the gross rent multiplier or GRM has dropped from 5.0 to 2.3 (line 9, obtain by dividing line 6 by line 1). This is ominous. At a GRM of 5.0 an investor sees a long time horizon. He expects capital improvements to pay back. However, at 2.3 he is discouraged from any further investments that do not bring a quick return.

<u>The Experience with Owner Turnover</u>

Figure B indicates what has happened to the same property when it has changed hands or been refinanced to enable profit taking.

Figure B contains two basic differences from Figure A. Data for intervening years (1968-1972) have been introduced, and the property in 1976 has a much higher outstanding mortgage indebtedness giving the latest owner "negative equity". Gross annual rent (line 1) initially

increased sharply due to the influx of student housing demand, but declined after 1972, due to a changing population, rent skip outs, vacancies, and rent control.

Operating expenses (line 2), on the other hand, were slow to increase after the student demand increased, but post-Vietnam and oil inflation have recently forced expenses sharply up.

Property taxes (line 3) were rising with the general tax rate but in 1973 the City assessors used rent control data to revise tax assessments in order to collect 30 per cent of gross rent in taxes, sic.

Net income before financing (line 4), first soared as a result of strong demand, then plunged, because lags in operating expenses coupled with weakened demand.

Market Value rose and fell between 1964 and 1976 (line 6). Translating varying net income through the appropriate capitalization factor reveals that property value has doubled and then dropped back to nearly its former level. The owner who refinanced or traded, saw his $45,000 equity "earn" him $150,000 between 1964 and 1968, and a further $30,000 between '68 and '72. However, from '72 to '76, there was a loss in value of $170,000. If $180,000 was "taken out" between '64 and '72, $170,000 now must be "put back in". Who wants to do that?

The gross rent multiplier (line 9), that conventional rule of thumb for judging value, did not warn of impending reversals, but stayed near 5 until 1976. It was generally accepted that property values were roughly five times annual rents -- and even today many Boston real estate actors, including potential buyers, would assume from the financial data that

Figure C: VARIOUS INVESTOR TYPES OWNING MULTI-FAMILY HOUSING

Type A - Established Owners/Managers (Blue-Bloods)

- Like stable markets
- In business a long time for steady returns
- Integrity, pride in waiting list of tenants
- Objective: steady earnings = f (quality, steady services)
- Careful selection of choice, qualified tenants
- Tend to have relatively low mortgages or own outright

Type B - Blue-collar Investors

- Promote stable markets
- In business for their own (or survivors') financial security
- Unsophisticated
- Objective: equity to cover old age
- Minimize mortgages, own outright if possible
- Tend to cluster holdings near their own residence
- Always on hand to do repairs on weekends, evenings
- Easily and unwittingly overwhelmed by changes
- Ill-equipped to deal with complexity of rent control, housing court, tax abatements, etc.

Type C - Traders

- Speculate in rising markets
- Seek leverage and rapid appreciation of equity
- Objective: reap gains from appreciation upon resale
- Increase gross rent and capitalize on it by selling at a favorable price
- Tenants incidental; there only to keep building occupied and to demonstrate rent potential to next investor
- Minimize personal exposure (put in little time or money to maintain property)
- Concentrate on cosmetics that would increase resale price
- Polarized tenant-landlord relationships likely

Type D - Operators

- Derive profits from operations in weak market areas where no one else will supply housing - the low-end of the housing spectrum
- Stereotyped as the slumlord, around since at least 1960's
- Can't be dislodged because of problem of relocating tenants
- Objective: high annual returns (attendant high risks)
- Will pay taxes only as advantageous but counting on "end game" (4-5 years before City forecloses)
- Accept and pocket whatever they can of rents obtained
- Minimize taxes and maintenance outlays
- Acquire without conventional mortgage, perhaps take over existing mortgage or obtains mortgage from seller
- Properties may be encumbered with second mortgages, liens, etc.
- Virtually no tenant selection exercised, more likely than most to take welfare referrals to avoid vacancies
- Often own "worst" housing in neighborhood, causing abutters to despise them, seek their removal
- Tenant-landlord polarization
- Likely to be in or get into tax delinquency

Type E - Shareholders

- Attracted to housing as investment opportunity
- Professionals pool money to invest; form limited partnerships
- Buy at "favorable GRM's" and hope to make money through tax advantages - shelters, artificial losses.
- Have limited grasp of housing issues, and responsibilities, (other than economic), but may retain a competent management team which is a critical element in delivery of decent housing services

Type F - Rehabbers and Developers

- Work in recycling neighborhoods and renewal areas
- Often flourished under federal assistance and now have enormous appetite for more subsidies, and/or tax breaks
- Adept at complex problems, handling red tape
- Politically shrewd, often manipulative to the extent of shaping administration of regulatory agencies
- Make their money at front end, ownership incidental
- Shapers of new market trends
- Likely to derive special advantages from tax collection and rent control system
- Increasingly the envy or model of other entrepreneurs

Type G - Special Forces (Distressed Property Handlers)

- Specialize in newest gimicks; take over where others leave off
- Always one step ahead of any regulatory agency (municipal, government, IRS, etc.)
- Profits are losses and losses are very profitable
- Calibre of management team, if such exists at all, depends on owner's view of what will return greatest profit within his limited time frame

the property is worth around $300,000. Those who have recently seen the area know the current value of the property is uncertain, but insurance is still in force at the higher value. In the event of loss, mortgage holders stand to be reimbursed.

Various Investor-Owner Types Signal Market Changes

New breeds of investors thrive in these rapidly shifting markets. If they do not actually cause the shifts, their presence at least indicates them. Figure C caricatures seven discernible prototypes of owners encountered in the BRA study of multi-family, investor-owned housing in all parts of the City of Boston. Before we examine their succession, a few brief words on the types are in order.

Established Owners and Blue Collar Investors (Types A and B) have traditionally and ably served tenant housing needs in stable markets. As Fig. C elaborates, they have a long and steady perspective, acting as trustworthy custodians for their part of the housing inventory. While they easily ride out the ebbs and flows of the market, they have a low tolerance for administrative complexity.

Traders (Type C) speculate in rising markets and never intend to own or manage their properties for long. Ideally, they just take options, but in fact they outbid types A and B in rising markets, taking over.

Operators (Type D) come closest to the stereotypical slumlord and signal a weak or declining housing market. While deterioration proceeds with both Traders and Operators, they indicate opposite market tendencies and must not be confused one with the other. The Operators become or remain owners of properties no one else wants or can handle, "milk the cash flow", and cut all corners they can. While Traders speculate in value, Operators manage what has indeterminate value.

Shareholders (Type E) dream they can be Zeckendorfs or pursue business school fantasies, but have limited grasp of the actual complexities of housing investment. Frequently Shareholders are the customers of Traders who anticipate a deterioration in market climate.

Rehabbers and Developers (Type F) have come into being in response to our complex housing programs and are now the primary ones able to make the programs deliver. As an interest group they interact closely (some say manipulate) public administrators and policy makers at the city, state and national level.

Special Forces (Type G) are so unconventional that they defy categorization, but their wide ranging abilities impress all with whom they interact. Some were formerly Traders and now handle conversions to condominiums and the like. Rehabbers may be another simple subset of this type.

In reality they seldom are as pure as this typology suggests, but once the prototypes are clear and we know what to look for, differentiating actual investors is relatively simple.

Then like meteorologists, we can track the behavior of these various investor types to identify shifts in market climate. Established Owners and Blue Collar Investors are in business to deliver housing services, not to profit at the margin. The financial picture sketched by Figure A suggest how such owners are faring in the Fenway Area. They can survive as long as they do not lose the old 6 per cent mortgage, but in the current uncertain and fluctuating market climate they are not usually replaced by their own type. The type of replacement owners at turnover signals prevailing market perception. In Fig. B, Traders predominated among buyers during the 1960's. However, by 1972, turnover

brought in Shareholders lured by the astounding appreciation and returns on equity that Traders were able to show. And by 1976, Operators, Distressed Property Handlers, and even a few Rehabbers were in evidence. Traders attracted by the spectacular gains through 1964, knew enough to sell out by 1972. Often those buying at this point were first-time investors who, while astute enough on the paper benefits of ownership, understood few of the complexities involved in property management. The Shareholders who bought after 1970 with highly-leveraged and costly financing are now in trouble if they pay all expenses, taxes, and debt service. Thus they evolve into Operators, Rehabbers, or Distressed Property Handlers or actually transfer their properties to these types.

In the past, such owners would be left to suffer the consequences of their bad judgment, but at least in the Seven Streets area, more cynical games are now being played out. Fire insurance policies were written at the time of highest value and now cover more than market value. In many instances, Traders arranged or provided mortgages which by law have prior claim on insurance compensation in case of fire destroying the property.

The properties under study in the Fenway area have in fact experienced numerous fires of suspicious origin recently, prompting investigations. In October 1977 an arson ring was exposed, and several people with dealings in the Fenway indicited. While some fires appear to be the result of tenant negligence, many others seem to have been set. Aging mechanical systems and deferred maintenance also play a role. To confuse matters even more, tenants could also have motives for arson, since burn-out victims get priority for public assistance and relocation.

Media stories compound the confusion, destroy any residual market confidence in the area, and fail to illuminate any of the underlying causes.

Recently Rehabbers have appeared, taking options on properties in the area. Their presence is a function of past public policy which has given priority in allocating scarce federal assistance to the most distressed urban sections to obtain symptomatic relief. Rehabbers know there will be media and public clamor to "revitalize" the Seven Streets area and are preparing for the expected commitment of Section 8 rental assistance to redevelopers.

A significant counterpoint can also be found within the Seven Streets area. Here properties were still in Type A ownership, rents were modest, housing conditions good, and tenants were satisfied. These were frequently mentioned as "proof" that decent owners could survive with the city's rent control and tax policies. The secret? The owner stopped paying taxes several years ago, when they got "excessive". His reasoning: I don't like rent control; if I don't pay my taxes I won't need to increase rent; I will thereby avoid tenant polarization and turnover; and finally when the inevitable reckoning hits the other properties, mine will survive. His shrewdness has paid off so far -and the Collector-Treasurer finds it difficult to deal harshly with this successful owner to collect back taxes when the City is razing adjoining properties (also in tax delinquency) at public expense.

Public Policy Inferences

A new way to define the role of public policy emerges from this case study. Maintaining the stock so it can continue to deliver decent housing indefinitely is a valid housing goal although it decidedly

differs from accepting trickle-down. If we accept this goal, the need to maintain income and expenses in a more predictable relationship follows directly. When income outstrips expenses, speculation results, drawing in less beneficial owners, the Traders and Shareholders. On the other hand when expenses climb faster than income, other also sub-optimal ownership styles arise, like Operators, Distressed Property Handlers, and Rehabbers.

Reviewing Figure B, it can be seen that excess demand started the deterioration cycle in 1964, by raising income while expenses and taxes remained low, suddenly increasing value. Public policy should have either controlled the rents or taxed away the excess profits immediately. Since the City did not do this, Traders entered. The "tax brake" applied by the normal order of events between 1968-1972 appears about right, but when compounded between 1972 and 1976 by fuel inflation, rent control applied simplistically and too late, more taxes, and a less stable tenantry, some housing is irrevocably on the way to destruction. The cause is lack of an adequate public policy. Arsonists have merely written the last chapter.

It was shown above how the various owner types signal the particular market climate, but it must also be recognized that owners are initially responding to factors like the advent of students, not causing them. However, their actions frequently exacerbate the market and they are often thereby assumed to be causal. The policy challenge is to identify stablilizing actions which can overcome the destabilizing activities of the various owner types. Once the underlying forces are understood, the remedies become clearer. I hereby propose a deceptively simple Housing

Policy Law: The public interest is best served when housing income and expenses are maintained in a predictable relationship. All the familiar policy tools may be suitable: rent control and subsidies on the income side; and such measures as taxes and code enforcement on the expense side. The challenge lies in knowing how and when to apply them and about this we as yet know very little.

Our past housing failures or counter-intuitive results can be explained as a result of applying the familiar tools in ways that oppose this fundamental law. In a stable market income and expenses are somehow maintained in a predictable relationship. Homeostatic forces acting on the neighborhood housing system generally seem to have maintained this stability in the past. But now, if we regard stability as the Golden Mean, then we recogonize that a housing market can veer into disinvestment on the one side, and speculation on the other. Figure D lays out some of the associated pathologies and their remedies.

Figure D: Policy Mean lies Between Extremes

	Extreme (+) Imbalance	Stable Balance	Extreme (−) Imbalance
Symptoms (Causes?)	rising market	G	declining market
	speculation	O	disinvestment
	excess demand	L	excess supply
	raving press	D	bad press
Indicators	Traders	E	Operators
	income > expenses	N	income < expenses
Corrective Remedies	Decrease income	M	subsidize rent w/o stigma
	raise expenses	E	abate taxes
	control rents	A	boost neighborhood image
	raise taxes	N	
	enforce code		

The public interest requires steering a middle course between speculation and disinvestment, between excess demand and excess supply. Speculators and slumlords were thought to refer to the same pathology - greed in housing suppliers. It is now clear that we must differentiate between them, dividing them into Traders and Operators. To bring income into line with expenses, policy makers can influence rents, taxes, code enforcement standards or neighborhood image, but they must do it in ways that appear fair and predictable to all actors in the system not just immediate beneficiaries. To subsidize the rents of only a few owners in a declining market, introducing more disadvantaged tenants, can inadvertently reduce the market rents of abutting owners, raise the operating expenses of all owners, or provoke a negative media/neighborhood reaction, further destabilizing the neighborhood market. Fairness and predictability to all actors are key in a successful policy approach. It is critical to consider and anticipate the reactions of all affected interests before intervening. Inequity or uncertainty, even if unintentional, are worse than "benign neglect," because benign neglect at least lets ever-present homeostatic forces fight market imbalances, whereas the interventions frequently override the natural stabilizing mechanisms.

A medical analogy furnishes some insights. The human body has a complex system for maintaining health that we only partially understand. When the system experiences an infection, combat mechanisms are brought into play. A doctor assists these coping mechanisms in administering treatment, but he looks for counter-indications that signal when the assistance is doing more harm than good. This same system may also allergically react to something in its environment and that is quite

different. An allergy is not an infection, but an overresponse of the coping mechanisms to some outside agent like pollen. Here the doctor attempts to suppress the coping mechanisms just enough to restore homeostasis, but not so much as to impair the normal defenses against infection. If we can associate disinvestment with infection, and speculation with allergies, then the public policy course is defined as aiding the neighborhood forces combat the extremes of disinvestment on the hand, and speculation on the other.

Once we differentiate the pathologies it is really quite simple. Many familiar tools are already available and appropriate when properly applied, but when we confuse disinvestment with speculation, these same interventions prove counterproductive. Just as a patient may develop an allergy to penecillin administered to combat an infection, so a neighborhood can develop a serious reaction in response to well-intended policy interventions. "Iatrogenic" or doctor-induced illness is an important concept in medicine. It seems likely many of our neighborhoods are beginning to suffer similarly from misguided interventions into the neighborhood's housing dynamics.

APPENDIX C

STRATEGIES FOR STABLE, RISING AND DECLINING MARKETS

Based on the general policy guidelines outlined in the text, specific strategies can be outlined for stable, rising and declining markets.

STRATEGIES FOR STABLE MARKETS

Stable areas where housing is in good condition (G/S) do not require special neighborhood housing actions by the city beyond appropriate routine public improvements, city services, and equitable shares of general citywide housing credit and services.

Technical assistance, code enforcement, and property tax incentives linked to repairs will maintain stability and improve conditions in stable areas needing moderate fix-up (F/S).

The original intent of the federally-assisted code enforcement program--to combine special fix-up incentives with areawide code enforcement and public improvements--remains valid. Unfortunately federal 3 percent loans were always uncertain and encumbered by red tape; the code standards have been raised beyond limits that many tenants and owners can afford--but a carrot-and-stick approach focused on marginal neighborhoods remains an appropriate approach. In these areas the city can encourage improvement through services-oriented code enforcement* coupled with technical support such as rehabilitation counseling to owners who request it. The code enforcement costs could be met from the regular city budget, but technical assistance would be a new expense.

The technical assistance costs could be financed through a combination of public and private funds. Depending on their financial standing, some recipients of these services could be asked to repay their costs, particularly if they could reimburse them through an amortizing loan. Repair costs themselves could usually be born by owners who can draw on their own rainy day savings ("mattress money") or take out short-term home improvement loans.**

In Boston, the city has designed a tax incentive program --known as the Housing Improvement Program (HIP)--whereby owners are provided with a direct property tax credit (10% of the cost of fix-up up to $1,000 in credit per unit) for repairs which are made on 1-3 unit owner occupied houses. During 1975 the city of Boston committed federal community development block grants towards expanding the Housing Improvement Program (HIP) into a program of technical assistance and 20 percent direct

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*Reorganized and reoriented code enforcement is recommended. Inspectors should focus on these stable and rising areas and provide brief write-ups of remedial work required instead of adopting a punitive stance and simply citing a list of violations. Systematic code inspections in declining areas can achieve little until more fundamental family income problems are addressed. For a discussion of possible changes in codes administration see Building Neighborhood Confidence, pp. 88-92.

**In Building Neighborhood Confidence specific cost estimates were made for Boston for the general set of strategies which are outlined. Because of the broader application of this document and due to length constraints no such estimates are included in this report, although the reader should be aware that such calculations are possible.

cash rebates to resident owners of 1-6 unit structures who brought their buildings into code compliance.* The HIP also granted these owners immunity from property tax reassessment for these repairs. One out of six eligible owners in the city has already participated. It is already clear that most owners are doing much of the work themselves of arranging their own contractors, and largely using "mattress money," viewing the HIP as an opportunity. At present, all absentee owned structures are ineligible, and many lower-income households are financially unable to participate. In the future, this promising program should be modified and become part of a comprehensive strategy to improve all residential structures in a neighborhood rather than just those of resident owners who are committed to improving their housing. This is likely to involve sanction like code enforcement or rent reductions upon owners who deliberately undermaintain** and extending fix-up incentives to absentee-owners of good standing. In special cases deeper financial assistance may promote fix-up, but this should be employed sparingly and only in instances where aiding a particular structure can decisively spur other owners to invest on their own, rather than cause them to also demand special assistance. A critical component in such strategy is standards which the majority of structures in a neighborhood can meet. Residents can help define such standards, and the city must be ready to use this "stick" on substandard housing suppliers; the various "carrot" incentives alone will prove inadequate to promote fix-up, because many owners will not invest until the "blighters" are dealt with.

Stable areas needing major repairs (P/S) require the addition of a special loan fund to supplement technical assistance and code enforcement as part of a comprehensive fix-up program. Some owners in such neighborhoods have savings, but not all can afford the costs of extensive fix-up. During the 1960's, the federally-assisted 312-115 loan and grant program was designed to meet the needs of such owners. In Pittsburgh a cost-effective, flexible way of meeting these requirements has been developed by creating a special loan fund under the joint control of community and lending institution representatives. Managers of this loan fund can cosign or subsidize the interest for conventional home improvement loans, as well

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*See R. Goetze, "Housing Rehab is a Winner in Boston," in Planning, January 1976, pp. 4-5, American Society of Planning Officials.

**While such owners are few, their impact is often devastating to neighborhood confidence. These owners often also are delinquent in their taxes, are responsible for a disproportionate share of Housing Court cases, etc.

as make direct loans. When one case in four, the "unbankable" case, was assisted through this special loan fund, conventional lenders accepted the less needy three out of four cases and provided them with direct loans.

A similar Neighborhood Housing Services (NHS) program was initiated in Boston during the summer of 1974. Experience in other cities with NHS suggests that such a fund can start with as little as $100 per dwelling unit in the area at the outset. The fund should be built up to say $500 per dwelling and can sustain itself at that level through re-payments.

The role of *new construction* in meeting a city's overall housing needs is undergoing a critical reappraisal. During the 1960's it was taken for granted that new construction was a solution to urban blight; and a rapid pace of development was maintained, increasingly through use of subsidies. However, both low- and moderate-income housing needs, as well as housing abandonment have perceptibly increased since the early 1960's, casting doubt in some minds on the efficacy of new construction in improving residential neighborhoods.

For example, in Boston, new development for special needs such as the elderly is a potentially important tool, not only in providing jobs, but in promoting neighborhood stability in areas where demand holds up. Locating such housing in weak demand areas, however, is not appropriate because developments will prove unable to attract market rate tenants vital for income-mixing.

Residential development should be planned on income-mixing principles (such as those utilized by the Massachusetts Housing Finance Agency (MHFA)). Subsidies like the federal section 8-leased housing program should be coordinated into conventionally-financed developments in locations where such new development promotes neighborhood strength. The safeguard of sound development lies in exempting a significant fraction of the units in each development permanently from subsidized occupancy, thereby forcing developers to evaluate the demand before they embark on construction. One hundred percent subsidized demand will simply permit repetition or exacerbation of the costly mistakes that already haunt recently produced subsidized housing.

Homesteading has a vastly overrated potential, particularly as a device for stabilizing declining areas. In areas where demand and prices have stabilized, however, tax foreclosed and delinquent properties are suitable for conveyance to new resident owners who can meet a downpayment requirement and are able to devise their own approaches to fixing them up. Homesteaders will need the technical assistance and fix-up tax incentives

described above, but they will need much larger amounts of housing credits, up to $10-12,000 per unit, to make the extensive improvements needed in these much more seriously deteriorated and usually unoccupied properties. If this level of private credit is not available, homesteading will fail. These properties should not be assigned high priority for the allocation of scarce public resources, however, since each dwelling unit requires so many dollars. Rather, rapid removal of abandoned structures in areas of declining demand should be considered because their presence encourages such disinvestment. Their removal, coupled with leasing the cleared sites as gardens, can go a long way to stabilize the markets.

Homesteading is appropriate mainly where a market has already "bottomed-out" and is not about to decline further. In declining areas where additional abandonment is anticipated, rational owners would not continue maintaining, let alone investing heavily, in rehabilitation of their properties, because these investments could not be recovered. Any homesteader in such cases would become locked into this property, having only "negative equity" to show for his renovation efforts.

Demolition. Neighborhood revitalization also requires dealing rapidly with the few sorely deteriorated structures that have effectively been abandoned by their owners. In the past such structures were often boarded up, intended for future rehabilitation, but experience has shown that few were ever successfully restored. Their blighting presence often discouraged abutters from further maintenance and upkeep, as well as warned appraisers and new buyers that supply exceeded demand, so these structures did much more harm than their potential value as future housing resources could ever offset. As yet, there is no practical, inexpensive way to "moth ball" such structures for future use after effective housing demand in the area is restored--and their very presence prevents the restoration of demand. In the interim, these structures drain public resources. Some catch fire, others function as havens for crime or pose hazards for curious children. Demolition of unwanted structures has become an important tool in revitalizing neighborhoods. Many outsiders are stunned that the net benefits of demolition far exceed "trying to restore a scarce housing resource," but this merely stresses how important understanding the nature of the particular market is to neighborhood fix-up.

In Boston, community development revenues are being devoted to such a rapid demolition program which results in cleared, loamed over lots, often leased to abutters to plant a garden or the like while title problems are resolved. The city has virtually eliminated the backlog of abandoned structures.

STRATEGIES FOR RISING MARKETS (EXCESSIVE DEMAND)

City administrators should identify the excessively strong market (G/R) neighborhoods with good housing and maintain an effective regulatory posture towards them to discourage undue rent increases and illegal conversions. The posture in rising markets is obviously different than in stable or declining market areas. The likelihood of housing revitalization is high due to private market forces and the emphasis is on assisting the current residents--particular renters--and in preventing excessive dislocation. Speculative rent increases should not be necessary since the housing stock in these areas is basically in good repair and outlays are only rarely needed to correct deficiencies or to modernize. However, in such areas speculatively inclined owners are tempted to reap the gains of rising market values without any improvements in services. Proper code enforcement and publicizing property tax reassessments on those who sharply inflate rents can help encourage responsible ownership. In cities like Boston, with a Rent Control Administration, many of the applications for rent increases come from G/R areas. Financial sophistication on the part of municipal regulatory agencies is required to allow increases where they are due without fueling further inflation of housing prices throughout such areas.

When speculation does get out of hand, tenant-landlord polarization increases, and formerly sound housing can erode surprisingly rapidly. When such collapse of the housing market occurs the shrewdest owners have usually already taken their windfall gains elsewhere and sold their properties to less experienced amateurs or newcomers.

Appropriate neighborhood strategies for F/R areas include special emphasis on code enforcement, assessing and rent control functions (where present), monitoring illegal conversions, and widening ownership options. Except for extending ownership forms, these policies encompass municipal land use powers and should be provided by the city's appropriate regulatory agencies. In F/R neighborhoods conditions are only fair while the market is rising and this calls for careful public intervention to protect the interest of less affluent residents in the face of the appreciating market.

Fixing up housing in rising market areas poses a dilemma. Countervailing social forces may be present. Existing tenants, often on fixed incomes, may seek improvements but be unable to meet the rent increases required to pay for them. Landlords may be willing to make the improvements but will want to raise rents accordingly especially when they know they can attract a new, more affluent tenant who can afford the higher price.

This process must be monitored to ensure that landlords do not try to capitalize on the rising market by asking for rent increases which are not justified by improvements. Absentee owners frequently have more speculative interests and therefore require close monitoring to prevent illegal conversions. But public regulation does not solve the problem of tenants without the means to pay for housing fix-up. In the long run, the rights of such residents to remain as tenants in rising markets are difficult to safeguard without increasing the tenants' ability to remain through some direct subsidy to those households. Only by opening options of ownership like condominiums or cooperatives to tenants in multi-unit structures can they be protected from being displaced by more affluent households.

Wherever repairs are required amidst a strong market demand, the dilemma is to clarify the rights of tenants with limited incomes to remain. Should they be allowed to live in substandard dwellings? If not, how much of the improvement costs should be passed on in increased rents? If there were either public subsidies to pay for the fix-up (like low-interest loans) or direct rental assistance to tenants (through Sec. 8 leased housing), these could be granted to owners upon the conditions that they make the improvements and continue to serve the existing tenants. But at present neither subsidy nor direct assistance is generally available and conditions involving income limitations tend to develop into an administrative nightmare even when such assistance programs are operative.

Creating condominium options for present tenants offers more promise. This would enable them to share in the rising market instead of being displaced by it. As owners, they could benefit from increasing equity based on rising markets. Additional benefits of condominium ownership include income tax deductions for mortgage interest and property tax payments the impact of which depend on the owner's tax bracket. With the current rapidly-increasing pace of inflation, many more households will be in the tax brackets where cooperative or condominium ownership could reduce their net housing expenses while providing them with equity. These forms of tenure are already being adopted for modest-income households under special housing programs in Cambridge, Massachusetts.*

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*Work Equity and Homeowners Rehab, Inc., 678 Massachusetts Ave., Cambridge, Mass., has pioneered this process locally, enabling lower income families to become condominium owners in four-story, frame, row housing on Broadway St, at favorable prices in strong market areas. The city of Cambridge is giving this organization support under community development revenue sharing to continue and expand this program.

Similar adaptations could be made in certain Boston rising market neighborhoods if good counseling and technical assistance were made available. At this stage a pilot effort by a community based nonprofit institution would be an appropriate test of this proposed approach.

Extending these forms of tenure does not entail public program expenditures, but requires altering housing credit policies of conservative lenders, and devising master deeds applicable to the housing stock involved (such as with row houses.) In the long run, cities stand to gain from such conversions, both through neighborhood maintenance which typically accompanies resident ownership (and which preserves a sound tax base), and possibly through some increased tax yield. However, care should be taken in applying tax policy to these forms of ownership because sharply increased assessments (due to condominium conversions or rising values) can easily drive out residents with limited incomes.

STRATEGIES FOR DECLINING MARKETS (FALTERING DEMAND)

The strategies for assisting areas that are declining differ radically from those appropriate for sound and rising market areas because the challenge is to appreciably increase housing demand. Homeowners, if they are concerned about the condition of their property, feel that forces they cannot fight are causing the decline: curtailed availability of lending and insurance, fear of lower rental incomes from new residents, racial change; and as the self-fulfilling trend continues, visible deterioration, accumulating debris and trash. Those who see housing primarily as an investment--both absentee property owners and banks--are inclined to overreact at the early stages of decline. Fearing deteriorating property values, they begin to disinvest, curtail maintenance, and extract what they still can out of their properties.

Under these circumstances, a very unstable situation results, changing long-term resident owners into sellers. Statistics in Boston, for example, indicate that annual owner turnover is normally between 4 and 8%, meaning that among a thousand structures perhaps 50 seek a buyer annually. As long as there are over 50 willing and qualified buyers, the neighborhood remains stable, but if only 40 buyers show up, the other 950 owners become more inclined to disinvest unless active nieghborhood promotion begins. Suddenly, there are many more sellers than buyers. Some owners may panic, willing to sell now rather than face the uncertainty of obtaining less later on. Other owners, hearing of price declines may become frightened and also start dumping their property for whatever price, however low, it can bring. As people overreact, the bottom falls out of the market. Ironically, housing conditions may be fairly good but this process begins and radical change may in fact not occur, but as more prosperous and informed households depart, less responsive absentee owners replace them. New interest groups such as brokers (who explot residents' fears and who may engage in FHA speculation) and low-income tenant advocates (who adopt a very aggressive posture against all owners in attempts to secure improved housing) appear in the neighborhood. Landlords and tenants become polarized, one group holding the other solely responsible for deteriorating housing conditions. Each may develop unrealistic expectations about the other's financial resources and ability to pay for housing improvements. This process plays itself out to housing abandonment in some all-white neighborhoods where there is no effective housing demand acceptable to the residents.

The lack of housing demand acceptable to the current residents is a key factor in the decline of such neighborhoods.

Beyond this the uncertainty about the future fosters disinvestment: What will this neighborhood be like? Will white speculators take over? Will "white trash" or blacks move in? Will my wife and children be able to walk the streets? Will my property be firebombed? Such worries are magnified by rumor and sensationalism. Residents who can, leave at all costs. Those who remain are the less sophisticated who are more easily preyed upon.

Any effective fight against decline depends on initiative and promotion from within the neighborhoods. Attempts to save a declining neighborhood solely from the outside generally fail. The attitudes of residents are key variables. Will the most capable local leaders stay and promote the neighborhood, or will they flee? City services and the strategies previously discussed for stable neighborhoods can *prevent* decay only in neighborhoods that have confidence in their own future. Code enforcement, technical assistance, and even special loan funds are useful only when they complement neighborhood self-initiatives. Imposed from outside, or brought in by an insignificant minority of residents, they will be unable to effect housing upgrading.

To make public improvements visible and to promise an improvement in city services are not enough. Rebuilding or replacing existing housing under the programs similar to the federal subsidy programs of the 1960's is not only too cumbersome but tends to undermine neighborhood confidence and to reduce market demand when the subsidized beneficiaries are not seen as meritorious by the existing residents. The housing and urban renewal programs of the 1960's were largely supply-oriented and often provided few benefits for the existing neighborhood residents. They did not reckon with the need of *low-income households* for jobs and more income resources. Too often they rehoused a few while scattering the majority and provoking resident owners to depart.

If programs in declining neighborhoods are to be successful, *direct household assistance to all eligible residents* of declining areas may be necessary as an alternative to housing production assistance. Direct financial assistance in the form of either housing allowances or income supports coupled with job training and counseling gives priority to helping households, instead of to saving

or replacing specific residential structures in declining areas.* Although there is no guarantee that an income approach would result in better *housing* by objective standards, this approach could open up a wider range of housing choices for all these households than supply-side programs did. With more money in their pockets, the effective housing demand of low-income families would be substantially strengthened. Individually they could elect whether to remain in their present neighborhoods, utilizing their additional resources to obtain improvements on their present dwellings or to move to better neighborhoods, gaining entry with their increased ability to pay for adequate housing.** Thus demonstrated consumer preferences for housing will be a better guide to identifying which neighborhoods have a future and which are obsolescing than leaning on the policies of lending institutions or public bureaucracies. Areas where most households choose to remain become stable by definition. The city would then respond by providing the housing improvement programs available to F/S and P/S areas: technical assistance, tax incentives and special loan funds. *Relocation should be added to direct assistance in areas where poor conditions and rapid decline compound* (particularly in P/RD, because it is likely that most households will elect to move).

Naturally we realize that such direct assistance to households is not available on a national basis and that such subsidies aggregate to substantial public expenditures.

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* The optimum form of assistance should minimize red tape and maximize increased purchasing power. To prevent inflation, phasing-in must be gradual to allow the local housing submarket to respond constructively to the new purchasing power and to give fix-up contractors time to bring dwellings up to code. Safeguards to prevent occupancy of substandard dwellings at higher rents must be carefully designed to prevent bureaucratic restrictions of consumer choice. One promising way to introduce this assistance that avoids many of the pitfalls would be to grant the assistance to only a fraction of the eligible households participating in any specific market in the first year, much like the draft lottery, or qualifying only certain digits in the household head's social security number. Only after several years would every household receive assistance. Letting qualified households select units and simply canceling further assistance to any dwellings while they fail to meet code standards is probably the simplest effective approach.

** Preliminary indications from the national housing allowance experiments indicate that when households move, they follow traditional migration routes: i.e., allowances do not foster racial integration. In Springfield, Mass., recipients of housing allowances felt they were definitely improving their housing.

Whether such subsidies are likely in the future will depend on political winds of fortune and public priorities. No matter what the future holds for such programs, it is necessary at this point to realize that the key factor in declining housing demand in declining neighborhoods is not a housing problem; rather, it is an income problem. Stated simply, there is simply a lack of adequate income to pay for needed housing services and housing maintenance. Until this problem is addressed, other difficulties are likely to persist.

Areas where housing conditions are still fair in spite of a declining market demand (F/D) pose dilemmas for planners and policymakers because physical conditions are better than in P/S, P/D and P/RD areas, fostering the illusion that much less costly supply-side public interventions would be effective for improving housing. Nevertheless, past experience in Boston suggests that once residents believe an area is declining, public improvements, loans and grants, and even new subsidized housing construction will be of little lasting impact in altering these beliefs unless neighborhood promotion can strengthen demand and confidence. While substantial income assistance in declining areas may even accelerate the departure of households in some areas, it is likely to be more effective in aiding households than past strategies because it offers them more choice.

Continuing credit, value insurance and quotas to control socio-economic mix are potential tools for improving neighborhood expectations once household assistance is extended to households in declining areas. These tactics are as important to the control of dynamics in currently stable areas as for areas already perceived as declining. They are proposed here merely as policy concepts which require further refinement.

Credit. The regular availability of credit is a major factor in neighborhood preservation. For most owners, the equity in their house is sizable and important. When potential replacement buyers find credit difficult to obtain in a particular neighborhood, they take it as a warning that, were they to buy, they would find resale difficult in the future--and they then buy elsewhere. But current owners also notice this, often begin to disinvest, and some decide to sell "while they can," leading to a glut of offerings for sale. While there are other causes of weak demand, lack of steady and readily available credit critically affects all housing.

Disintermediation--the periodic massive withdrawal of savings deposits--has nationally stressed the mortgage

credit system to its limits, but "red-lining"--discouraging all inner-city loan applications--appears to compound the problem of maintaining a steady availability of credit in "mature urban neighborhoods." As yet, these intertwined factors are not even generally understood. Bankers claim that disintermediation underlies whatever community groups call red-lining.

Past attempts to remedy such problems have often backfired. For example, an assigned risk mortgage pool was created in Boston in the 1960's--the Boston Banks Urban Renewal Group, or BBURG. However, it resulted in a lot of recent HUD-insured foreclosures, as well as many misleading and bitter recriminations between all the interests who tried to make BBURG function. Many are reluctant to grapple with these complex issues again, yet steady availability of adequate credit is one of the most critical elements in neighborhood revitalization. Without it, all special efforts like fix-up incentives will prove futile or useless.

Restoring general access to credit is currently one of the least understood yet most important problems to be resolved in preserving existing neighborhoods. A first step has already been taken through federal- and state-mandated disclosure on the part of financial institutions of deposit and lending patterns. Once data bases of normal residential credit are ready perhaps they can be used as a benchmark for evaluating the disclosed lending patterns and determining the next steps in restoring adequate residential credit.

Value insurance could insure that housing in fair condition is not caught in a seller's panic. As already pointed out, when economic or racial change threatens an area, too many owners fear losing their equity and put their houses up for sale, thereby depressing sale prices. As prices fall below the unpaid balance of the mortgage, more owners begin to seriously consider abandoning their property. The notion of placing a federally-supported floor under house values has been discussed periodically. Just as fire insurance repays an owner on property loss resulting from fire, similar equity insurance could repay a resident owner (not a lender) his original price plus any appraised improvements if he were unable to recover that value at time of sale (but, would not compensate him for losses due to his own negligence or lack of maintenance). Insuring owners against loss of equity would put a floor under house values in order to reduce panic sales.

To set up such insurance in a manner preventing fraud is difficult, but since most maintained housing tends to appreciate in value, the program would cost very little if

conducted on a broad enough base. If sold on a premium basis, participation by those who feel they did not currently need it would pose a special problem. The city could underwrite such value insurance to assure the future of the tax base. The incentive for the federal or state governments to provide such insurance in addition to existing mortgage insurance is substantial. It would curb both the incentives of existing owners to sell quickly as well as prevent newer owners from abandoning property because they feared their amortization payments were not building up their equity.

Setting quotas to control socioeconomic mix in the neighborhoods conflicts with free choice and equal opportunity, but the latter goals may currently be unattainable. Although quotas may be too radical for serious consideration as a city strategy to prevent the decline of areas in fair condition, a brief discussion may lead to new insights into the psychological aspects of decline and the discovery of new means to alter trends. The first black households to move into white areas are usually middle income who encourage white resident owners to remain, believing that their presence maintains city services and prevents neighborhood decline. Nevertheless, white households leave and the area usually resegregates into a lower class non-white neighborhood. The notion of a "tipping point" is now largely seen as an oversimplification. The "tipping point" notion assumed that racial mix below a certain threshold was tolerable and that the mass exodus of white owners occurs only when the percentage of non-whites exceeds a "tipping point." Better predictors of neighborhood future than any given percentage of non-white are the existing residents' perceptions of what future property values and neighborhood quality will be. Attainable and credible quotas on future occupancy could alter these perceptions. We recognize that HUD cannot set quotas, but guidelines which are not enforceable will not be enough.

The affluent suburbs have managed to maintain socioeconomic quotas so effectively in their self-interest that most non-white population growth is channeled into resegregating areas. Altering this pattern may require temporary quotas, as affirmative action plans in employment and education have shown. Both the new arrivals and existing residents in a newly integrating neighborhood have a joint interest in the prevention of panic sales and curtailment of lending and city services. Ideally, an ethnically and economically diverse market would maintain its mix, but market dynamics

tend to permit only transitional economic or racial integration. Those who seek to live in areas that remain integrated will have to depend on influencing the process whereby out-migrants are replaced to maintain an optimal mix.

Tactics for insuring continuance of such a distribution are yet to be invented and raise constitutional questions. If such a policy could be devised, it would probably prevent the moving out "before their time" of a host of long-term residents, an exodus which triggers major decline.

APPENDIX D

POTENTIAL REFINEMENTS TO NEIGHBORHOOD INDICATORS

Indicators of neighborhood dynamics and change will emerge from contrasting data drawn from both hard and soft data sources. Listed below are some of the data sources that have been used in studying the dynamics of Boston neighborhoods.*

HARD DATA SOURCES

The purpose of such data is to determine actual as opposed to perceived changes. The idea is to construct a profile of each neighborhood across time (1955-1976) from a variety of annual and continual indicators.

a. List of Residents (From the police census, voter listings) -- records all residents by street address as of January 1 of each year. Persons over the age of 20 (over the age of 17 after 1971) are listed by age and occupation. By providing a detailed annual data base, the records enable one to determine the more subtle dimensions of population change. It is possible to ascertain the extent and pace of a qualitative shift among incoming residence. In addition, the records cite the previous place of residents for each newcomer (by street address within the same city, or by city, state or county) thereby allowing one to establish significant patterns of movement.

The list of residents is available at the Boston Public Library and goes back well beyond the proposed period of analysis.

b. Sales Records -- Information from the Metropolitan Mortgage Bureau, Inc., Appraiser's Weekly and the Banker and Tradesman is maintained in a weekly-updated file in the Boston Redevelopment Authority's Real Estate department. Arranged by street address, a sales history of every residential property is recorded in terms of name of buyer, name of seller, amount of sale, amount of mortgage, mortgagor, mortgagee, assessed value, and description of property. Analysis of this data establishes the following:

- -- turnover rate
- -- price trends
- -- lending patterns of financial institutions (conventional vs. non-conventional)
- -- percentage of down payments

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*Excerpted from a study currently in progress, "Early Indicators of Change", to be conducted by Tunney Lee, Rolf Goetze and Tim Pattison.

Combined with the list of residents, the sales records:

- -- distinguish among buyers: owner occupiers from absentee owners
- -- distinguish among newcomers: owner occupiers from renters
- -- identify sellers and their age and occupational characteristics.

The sales records are available to this research team and are available back to 1955.

Exhibit 11 and 12 in the text indicate how data from the above sources can be used to measure activity and change within given study areas.

c. Tax data -- Available for the past two years in machine-retrievable form providing information on abatement and delinquency patterns. Prior to 1976 this same data is arranged in ledger form and organized by parcel number.

This information is maintained in the City of Boston Tax Assessing Department and is open to the public.

d. Sanborn Atlas -- Indicates physical appearance by year. Available at M.I.T.'s Rotch Library.

e. Police Department Records -- Catalogued by type of crime, ledgers of all incidents are maintained by precinct. Given the tendency of police personnel to remain for long periods at a given precinct, there exist knowledgeable officers useful not only in the gathering of "soft data," but also in guiding research efforts toward specific trends in hard data.

The files are available at precinct offices and go back as far as needed.

f. Fire Department Records -- These will be used to i) identify trends in the frequency of alarms and ii) direct researchers to fire incident locations to examine events that have occurred after a fire.

These are available in ledger form at fire department headquarters.

g. FAIR Plan Insurance Records -- A rich data source that will identify trends toward this type of insurance.

Available from 1968. Access may be a problem because of current arson investigations within the city.

h. Boston Redevelopment Authority Special Planning Department Reports.

It should be noted that the U. S. Census has not been listed as a source. Often census data is inadequate in this type of research. Census tracts are often larger than desired study areas, while block

statistics do not provide the necessary depth of information. Moreover, the decennial nature of the U. S. Census precludes measurement of important annual changes.

SOFT DATA SOURCES

The purpose here is to discover changes perceived by local and external actors and how they were interpreted. Important actors include:

-- Long term residents (owners and tenants): identified by matching the current list of residents with the list of ten years earlier to determine which names appear on both.
-- Real estate brokers: identified from real estate listings in newspapers. (Back copies for entire period available on micro-film at M.I.T. and Boston Public Library). Brokers do tend to be a more recent phenomenon however. Earlier transactions frequently occurred through word-of-mouth recruitment or ads placed at parish church.
-- Bank officials (appraisers, loan officers, etc.): banks involved in lending within study areas will be identified from real estate sales records.

While numbers will probably dictate that a sample be drawn from the long-term residents for interviews, it is anticipated that all real estate brokers and bank officials identified will be contacted and invited to participate in group interviews. Recent experience at Boston's Parkman Center for Urban Affairs shows that persons asked to participate in such groups have almost always accepted the invitation.

The modes of collection consist of individual interviews and interviews of small homogeneous clusters of actors (3-5) who stimulate each other to recall forgotten events. Where such groups have been assembled in Boston for various research studies, group interaction helps individuals reconstruct the past, e.g. "Remember when that mansion on Pond Street burned? What did you think.." or "When Alimento's Tropicales took over Pete's Spa..." Questions asked will address perceptions of change -- when, how and why changes occurred from the perspective of participants. The resultant collective perceived history of events are then juxtaposed against the hard data.

SYNTHESIS

After the chronology of neighborhood stress has been established through the interviews mentioned above, then the associated sets of triggering events that signal that coping mechanisms have altered can be found. These might be changes in turnover rates or tenure patterns,

conversions, altered lending practices, rise in low downpayment mortgages, actual or rumored influx of other socio-economic groups, increased investment in upgrading, or disinvestment, etc.

Comparing the various data sources will reveal what is salient in the changes and how perceptions on the part of various actors have interpreted or "colored" the past. By comparing neighborhoods, factors which would escape notice if only one neighborhood were examined will stand out from the contrast. Simultaneously, the recalled history is more likely to identify the stimuli that changed behavior on the part of the many actors engaged in the continual replacement process. For example, belief that property values will drop leads to altered maintenance behavior; but what triggered this new conviction?

As patterns begin to emerge, a synthesis will begin to occur which will fine-tune further hard and soft data collecting. This is essentially an iterative process that has worked successfully in previous research undertakings. Hard data shows what to probe in interviews and these point up where to focus in collecting additional hard data. For example, it may turn out that reassessment or announcement of some public program hitherto not recognized as important triggered some actor's new awareness of change, e.g. that a lender henceforth decided to use FHA insurance on all further lending.